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Bloomberg Businessweek

April 3, 2023

Hasbro's Dungeon Master



CEO Chris Cocks

Can the toy giant roll Dungeons & Dragons into a Hollywood blockbuster—or will it just infuriate the game's fans? 34

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◀ Hasbro CEO Chris Cocks remembers discovering D&D in grade school. "One of the wizards had this cool ruby at the end. I was like, 'Oh, what's that? It's cooler than your *Star Wars* figures.'"

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Can D&D's new film finally end decades of the game's business missteps?

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A niche auto insurer is swallowing up the classic car industry

PHOTOGRAPH BY TONY LUONG FOR BLOOMBERG BUSINESSWEEK

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■ COVER TRAIL

How the cover gets made

❶

"This week's story is about Dungeons & Dragons."

"Hear ye, hear ye! My dice pouch has waited many, many moons to unfurl its potentials."

"Somehow I knew this story would be right up your alley."

"More like down in my labyrinth! I've been playing since it was a satanic pursuit."

"How old are you again?"

"A dungeon master never tells..."

"Anyways... it seems we can get some time with the Hasbro CEO, but *make haste!* He's only available this morning."

"I'm sensing some judgment. Is there a challenge my level-18 Paladin can't take on?"

"As long as she can work a camera..."

[A spell later]

"How'd the portrait go?"

"More good than evil. More chaotic than lawful!"



Cover: Photograph by Tony Luong for *Bloomberg Businessweek*. Lettering: Martin Lacko

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● Opposition to Emmanuel Macron's pension reform sparked violence across France.

The president's allies in the National Assembly still back his controversial plan, but some are urging him to find a way to defuse the demonstrations. With confrontations between police and protesters increasing, they're worried that someone could be killed, unleashing a new surge of anger. ▷ 6

● War in Ukraine

► During the virtual Summit for Democracy, on March 28, Secretary of State Antony Blinken said the US supports Kyiv's peace framework, which demands the withdrawal of all Russian forces from Ukraine.

► German Galushchenko, Ukraine's energy minister, urged nations to sanction Russia's nuclear sector. He said Ukraine is more worried about the Zaporizhzhia nuclear plant—which he claims the occupying Russian forces are operating under deteriorating conditions—than Moscow's plan to place nuclear weapons in Belarus.



● A counterprotest in support of Benjamin Netanyahu's proposed judicial reforms in Jerusalem on March 27. The prime minister delayed his controversial plan after it triggered mass demonstrations and a paralyzing nationwide strike.

● Apple is rolling out its first "buy now, pay later" service after a lengthy delay.

With Apple Pay Later, the tech giant enters a field dominated by Affirm, Klarna and others. Apple's decision to handle its own credit checks and run the other underlying technologies delayed the launch of the short-term financing service, which was originally set for September.

● Amazon.com is weighing the acquisition of AMC Entertainment, which has a market value of about

$4b

The world's largest theater chain has struggled, because filmgoers have been slow to return to cinemas following the Covid-19 pandemic.

● A fire in Ciudad Juárez killed 38 migrants.

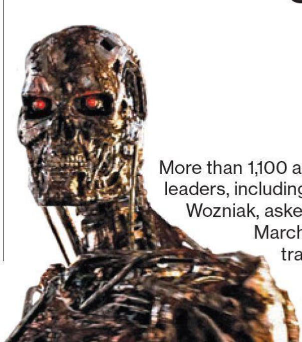
Investigators are looking into the March 27 blaze at a detention center just over the border from Texas. The victims were from Central America and Venezuela. Mexican authorities believe the e started when some of the detainees at the all-male facility, protesting their imminent deportation, lit their cots on fire.

● President Ferdinand Marcos Jr. on March 28 said the Philippines will



cut contact with the International Criminal Court after it denied Manila's request to suspend a probe into former leader Rodrigo Duterte's deadly drug war.

● "Powerful AI systems should be developed only once we are confident that their effects will be positive and their risks will be manageable."



More than 1,100 artificial intelligence experts and tech industry leaders, including Elon Musk and Apple co-founder Steve Wozniak, asked developers to hit the pause button in a March 29 petition calling for a six-month break from training AI systems.

● Beyoncé is pulling her Ivy Park athleisure line from Adidas.



The partnership's end is the latest blow for the sportswear giant, which was already reeling from its split with disgraced musician Ye. Adidas x Ivy Park had been intended to bridge the divide between fashion and sportswear, but sales were disappointing. Revenue in 2022 was $40 million, far below the company's target of $250 million.

● With the cost of running a college jumping 5.2% on average in fiscal 2022, according to asset manager Commonfund, the Ivies are raising prices. Tuition, room and board at the costliest, Brown, will run you almost

$85k

next year. Princeton, the cheapest, is asking a bargain-basement $76,040.

ISRAEL: KOBI WOLF/BLOOMBERG. MARCOS: EZRA ACAYAN/GETTY IMAGES. TERMINATOR: ALAMY. BEYONCÉ: ALAMY. ILLUSTRATION BY ANDREA BOJKOVSKA

US Chipmaking Plan Is Racing Toward A $52 Billion Failure

By now it's clear that the Chips and Science Act—which includes a $52 billion splurge for the semiconductor industry—is unlikely to work as intended. In fact, its looming failure is a microcosm of all that's wrong with the US approach to building things.

Passed last year with bipartisan support, the law was meant to revive domestic chipmaking capacity. Although the US is a world leader in design, its share of global semiconductor manufacturing has declined from 37% in 1990 to about 12% in 2021. Given the importance of such chips to the economy and especially to national security—the Department of Defense needs about 1.9 billion of them a year—a more or less coherent case could be made for subsidies, prudently applied.

Yet simply writing checks was never going to be enough. Producing chips in the US still takes 25% longer and costs almost 50% more than doing so in Asia. Significant policy changes would be needed for US-based manufacturers to be competitive. As things stand, they face three serious impediments—all inflicted by the government.

Chief among them is red tape. From 1990 to 2020, the time required to construct chip plants (called fabs) in the US soared by 38%. Clean Air Act permits can take 18 months, and National Environmental Policy Act reviews, an average of 4½ years. A half-dozen other federal laws may come into play, plus endless state and local variants. At every step, myriad agencies must be consulted, and parochial interests must be heard. Yet technology doesn't stand still for these bureaucratic tea parties.

Another challenge is that the US lacks the needed workforce, partly because of a broken immigration system. One study found that 300,000 more skilled laborers may be needed just to complete US fab projects underway, let alone new ones. Yet the number of American students pursuing advanced degrees in the field has been stagnant for 30 years. Plenty of international students are enrolled in relevant programs at US schools, but current policy makes it needlessly difficult for them to stay and work. The strains are showing: Plants planned by Intel Corp. and Taiwan Semiconductor Manufacturing Co. are struggling to find qualified workers.

A final concern is politics. Companies hoping for significant Chips Act funding must comply with an array of new government rules and pointed suggestions, meant to advantage labor unions, favored demographics, "empowered community partners" and the like. They should also be prepared to offer "community investment," employee "wraparound services," access to "reliable and high-quality child care" that's affordable and much else. One can debate the merits of any of these objectives. But larding already-uncompetitive businesses with crippling costs to advance unrelated social goals is at odds with the stated purpose of this law.

The good news is that these are mostly solvable problems. As just a start: Issue "fast-track" exemptions for chipmakers under federal environmental law—or, better yet, amend the law to accelerate all such projects and inhibit frivolous lawsuits. Increase visas for skilled workers, prioritize applicants with needed STEM abilities and exempt foreign graduates with advanced science degrees from the cap on green-card allotments. Slash the costly and counterproductive strings attached to Chips Act funding and accept that the proper venue for enacting the progressive agenda is Congress not companies.

The challenge here goes far beyond semiconductors. Misguided policies are impeding American ambition on all fronts. If lawmakers want to start building again, they can't just push more money out the door. They need to do the hard work that national progress demands. *For more commentary, go to bloomberg.com/opinion*

■ AGENDA



▶ A New King in Kazakhstan

The World Chess Championship begins on April 7 in Astana. Ian Nepomniachtchi will face off against Ding Liren after five-time winner Magnus Carlsen decided not to defend his title, saying his identity had become too linked to it.

▶ The Bureau of Economic Analysis reports the US trade balance for February on April 5. Analysts expect it to hold steady at a deficit of about $68 billion.

▶ China publishes its year-over-year inflation rate for March on April 10. Economists forecast it will rise back to about 2%, from the previous month's unexpectedly low 1%.

▶ The Royal Bank of Australia makes its next interest-rate decision on April 4. The central bank, anticipating that inflation has probably peaked, may be ready to pause rate hikes.

▶ Food giants Conagra Brands and Simply Good Foods report earnings on April 5, and beverage behemoth Constellation Brands follows on April 6.

▶ Japan's Cabinet Office releases its consumer confidence index on April 10. With pandemic disruptions finally fading, sentiment has been trending higher since November.

▶ Golf's Masters tournament, held in Augusta, Georgia, runs April 6-9. Will defending champion Scottie Scheffler hang on to the green jacket for another year?



Macron's Mess

The French President's autocratic bent has imperiled the rest of his reform project

By Alan Katz

The French like to say they are ungovernable, invoking Charles de Gaulle's exasperated (and likely apocryphal) comment about the difficulty of managing a country with 246 different cheeses. Emmanuel Macron, too, has called the French obstinately opposed to change.

Both presidents, former and current, might appear to be right given the images of the Bordeaux City Hall gate that was torched on March 23 or the cancellation of King Charles III's visit over worries about violent protests coinciding with his stay in Paris. In truth, the French aren't more averse to change than most.

But when they contest a particular policy such as Macron's plan to raise the retirement age to 64, opponents have only one way to really make a difference, which is to head to the streets. And unfortunately, one of the lessons of the yellow vest movement from a few years ago appears to be that adding violence to the mix increases your chance of forcing the government to back down.

Macron himself is usually quick to seek a fight, often crossing a room to debate a heckler, happy to show his mastery of the details of his government's proposals and confident that he can change minds. He appeared to push retirement reform under the same premises, arguing that he'd discussed it during his campaign and won reelection, giving the plan political legitimacy.

But that ignores Macron's own admission from that election night last April: "Many of our compatriots voted for me today not out of support for the ideas I hold but to block those of the far right."

Over the following weeks, his continued championing of the plan appeared to depress his party's popularity. It lost its outright majority in the June parliamentary elections, meaning Macron's government would have to find allies among opposing parties to pass legislation by vote.

In most democracies, if you don't have enough votes to pass a bill, it dies. In France, a government can bypass Parliament by invoking article 49, paragraph 3 of the constitution, which was designed to avert the legislative paralysis that was a feature of the earlier Fourth Republic.

Macron's last-minute decision to resort to such a maneuver angered a large swath of the public, even those who hadn't taken part in weeks of mostly peaceful protests and strikes meant to galvanize legislators to defeat the plan. The street demonstrations, which had been thinning out, suddenly became larger and also more unruly. "Macron has trapped himself," says historian Jean Garrigues. "If he makes any concessions now, it would essentially legitimize violence as the way to get concessions."

In a television interview on March 22, Macron said he had no regrets "other than not having been able to convince [others] on the necessity of the reform." He went on to say that he wanted to reengage with unions and opposing political parties on a series of issues.

Yet the reality is that Macron's gambit has likely rendered him a lame duck, unable to put the finishing touches on an ambitious domestic agenda designed to usher in a new, dynamic—and, crucially, business-friendly—France. Since arriving at Élysée Palace in 2017 as the youngest leader since Napoleon, he's pushed through changes in tax and labor laws that are credited with revving up economic growth and luring foreign investment. On deck for this current term were additional labor reforms, a green revamp of industrial policy and a new immigration bill.

One path out of the present standoff may run through France's Constitutional Council. The government as well as several parliamentarians have requested that the nine-member body, made up mostly of former politicians and senior civil servants, rule on the law and an opposition-backed request to put the bill to a referendum. The council will issue its verdict, which will be binding, on April 14.

It's unlikely that the council will declare the entire law unconstitutional—something that's happened only twice since its creation in 1958. But it could rule that portions of it shouldn't have been folded into the social security budget bill the government used as a vehicle to enact the pension reform.

On March 28, during yet another day of union-led protests, French Prime Minister Elisabeth Borne invited labor leaders to meet early the following week at her office. Laurent Berger, head of one of the largest labor confederations, said he planned to attend to discuss the retirement age issue, even though Borne's invitation didn't specify an agenda.

If there is no break in the impasse, another option would be for Macron to reach for de Gaulle's playbook and dissolve Parliament, triggering new elections. That would be risky. In May 1968, following weeks of student protests and factory strikes, de Gaulle dissolved Parliament, rallied a million people to march in his support and won a clear majority in the next round of balloting. (He resigned the following year after losing a referendum that essentially became a vote on whether he should stay in office.)

The move completely backfired, however, for another French president, Jacques Chirac, who in 1997 dissolved Parliament almost a year and a half after his government backed down on an earlier retirement reform plan. His party lost control of the National Assembly, forcing Chirac to name the leader of the rival Socialist Party as his next prime minister.

It's a lesson not lost on Macron, who in the March 22 interview ruled out dissolving Parliament, holding a referendum or reshuffling his cabinet to include politicians from other parties. "De Gaulle in 1968 had two tools: his ability to mobilize people and calling snap elections," says Danielle Tartakowsky, a historian of social movements in France. "Macron has neither."

One of Macron's great fears, according to his advisers, is that he will be succeeded by far-right leader Marine Le Pen, whom he beat in the last two presidential elections. While the 2027 contest is still far off, opinion polls show that, so far, Le Pen has benefited the most from the pension standoff. For a man who's styled himself as a champion of the so-called European project, helping deliver a nativist European Union skeptic into the Élysée Palace would be the most bitter of legacies. Ⓑ

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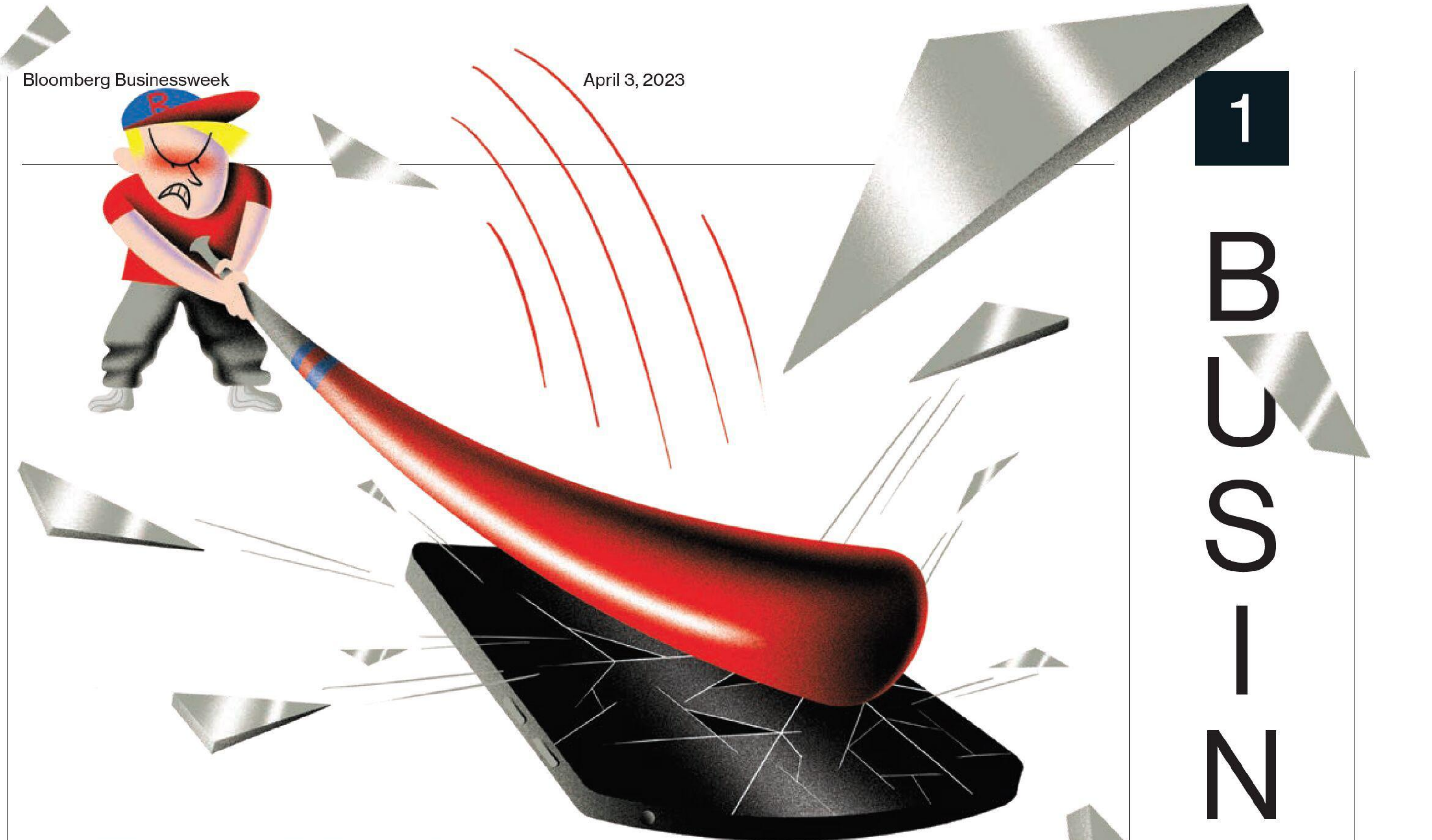
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Buy Me Some Peanuts And a $30 App?

● Regional sports networks are in a jam and looking online to make up for lost revenue

NESN 360 is the standalone streaming app of the New England Sports Network, the basic-cable home of the Boston Red Sox and the NHL's Bruins. It became available last summer, and if you live in New England and cut the cord, it's the main way to reliably watch these teams play. But it can be glitchy, and the network has already rolled out more major revisions (98) than Red Sox wins last season (78). "It takes a long time to assemble this kind of tech product," says Sean McGrail, NESN's chief executive officer, in an early March interview at the broadcaster's headquarters in Watertown, Massachusetts, a suburb west of Boston. "We want the experience to be flawless."

It needs to be: NESN 360 costs $30 a month, more than the ad-supported subscriptions to Disney+, HBO Max and Peacock combined. "It's more like twice the price of Netflix," McGrail says. "At $1 a day, how inexpensive is that to have live access to almost every single Red Sox game and Bruins game?"

Regional sports networks across the US are grappling with similar questions as they adapt to modern TV viewing habits. NESN 360 was the first direct-to-consumer streaming service introduced by an RSN as an alternative to the pricey cable packages that have long sustained local stations. It's the product of a tough situation—cord-cutters are slicing into the once-lucrative cable fees of RSNs even as broadcast rights and stadium productions remain wildly expensive—that may not be easily solved. Charge too little for live streaming, and RSNs accelerate cord cutting and anger cable and satellite distributors such as Comcast Corp. and DirecTV; charge too much, and they risk alienating loyal customers.

RSNs date to the late 1960s, when the New York Knicks and Rangers began appearing on a small Manhattan cable provider. Over the next half-century, similar channels popped up across the US, paying teams to air games while charging cable providers to carry them. Cable subscriptions soared, with people paying for sports networks even if they never watched. In recent years the bundling approach has collapsed. The number of pay-TV subscribers has plunged from a 2013 peak of more than 100 million to about 79 million at the end of 2022. Some TV providers have stopped carrying RSNs ▶

Edited by Bret Begun, Rebecca Penty and David Rocks

ILLUSTRATION BY YANN BASTARD

◀ altogether, citing exorbitant carriage fees.

In 2019 major TV providers dropped Denver's local sports channel, resulting in a bizarre scenario in which announcers called games of the NHL's Colorado Avalanche and NBA's Nuggets to virtually no viewers. In 2021, Comcast shut down a channel that aired the Portland Trail Blazers after the team's games moved to another channel that reached more homes, and last year it sold its majority stake in a network that shows the games of the Washington Wizards and the NHL's Capitals. Even NESN was dropped from the lineups of Google's YouTube TV and Dish Network Corp. in 2020 and 2021, respectively. "The current RSN model is fundamentally broken," Brian Neylon, Dish TV group president, said at the time. "This model requires nearly all customers to pay for RSNs when only a small percentage of customers actually watch them."

Meanwhile, teams are charging more for TV rights, squeezing RSNs from the other side. On March 14, Diamond Sports Group, the largest US owner of local sports channels, filed for bankruptcy. The company, which owns 19 channels that air the games of 42 MLB, NBA and NHL teams, could no longer afford to keep paying teams. Its financial situation is unique: It was saddled with more than $8 billion in debt from when Sinclair Broadcast Group Inc., its parent company, bought the channels in 2019. But it's hardly the only local sports broadcaster that's struggling. In February, Warner Bros. Discovery—which operates AT&T SportsNet channels in Denver, Houston and Pittsburgh—told teams it plans to exit the local sports business by this spring.

Netflix Inc. ushered in the streaming revolution in 2007, but RSNs have moved online only recently. Like NESN, Diamond introduced a streaming service last year, and the YES Network, home of the Yankees, announced one on March 29. MSG Networks, the cable provider of the New York Knicks and Rangers, among others, is expected to introduce its own standalone streaming option this year. But with monthly plans ranging from $20 to $30 (there's often a small discount if you pay for the year upfront), the pricing seems almost designed to keep people paying for their Spectrum and Verizon bundles. The networks "don't want to cannibalize the cable deals," says Lee Berke, a media consultant and CEO of LHB Sports Entertainment & Media Inc.

For RSNs to succeed in the digital era, they'll have to convince fans their apps are worth the cost. It's tough to get them to pony up that much money when an app features only some hometown teams, and certain matchups are blacked out by national channels that pay for the exclusive rights to games. NESN doesn't carry the Boston Celtics (they're broadcast by a rival) or New England Patriots (they're broadcast nationally). For its $19.99-a-month Bally Sports+ app, which has signed up about 200,000 subscribers, Diamond has secured streaming rights for only 5 of 14 MLB teams it broadcasts on TV. The company is in tense negotiations with Major League Baseball, which is considering clawing back its teams' local digital rights and streaming in-market games on its own service, MLB.TV.

"The current RSN model is fundamentally broken"

RSNs will also have to convince fans that the apps don't suck. "Unfortunately for NESN or Bally Sports, they're not technology companies, and they're not going to be able to build a product that customers are accustomed to, because expectations have gotten really high," says David Gandler, CEO of FuboTV Inc., a streaming TV service that offers RSN add-ons starting at $11 a month. Feedback for NESN 360 on social media and app stores has been generally brutal, citing crashes and stuttering playback on Rokus and Chromecasts. "The most disappointing and disastrous commercial product execution I have ever seen," read a recent one-star review. A spokesperson for NESN says that "98%+" of customers don't have issues and that the company's increased its testing and support services to improve the experience.

The development of NESN 360 was mostly outsourced. The network can't afford to hire dozens of full-time engineers. Its offices, around the corner from a Best Buy and an AutoZone, are mostly devoted to green-screened studios and TV control rooms. When asked where the team operates, McGrail brings a *Bloomberg Businessweek* reporter to Chief Marketing Officer Ahmed Darwish's office, where an array of TVs are hooked up to various streaming devices so he can compare their quality. "Traditionally with TV you have one cable operator, one set-top box," Darwish says. "Now you're in a world where you have Fire Cube, Google Ultra, four versions of Apple TV, depending on the generation."



● McGrail

McGrail declined to share how many direct subscribers NESN 360 has. (NESN cable subscribers have free access to the app.) He stresses that the company won't aggressively market it until the app is perfected, which he says could take 12 to 36 months. One promising data point, he says, is that about 50% of buyers are tuning in to every Bruins and Sox game. These "superfans," as McGrail calls them, seem happy to spend on a service that, besides live sports, generally hosts postgame recaps, player documentaries and a back catalog of low-budget originals such as *Sox Appeal*, a blind-dating show from the mid-aughts that took place at Fenway Park.

The larger question is how committed fair-weather New Englanders will be to a $30

MCGRAIL: NESN. COAL: PATRICK HAMILTON/BLOOMBERG

monthly service if Boston teams start losing. The Bruins are playoff-bound, but the Sox finished last in their division in 2022, sending NESN's TV ratings plummeting 35% compared with the previous season. It will be much easier to cancel a no-contract app than a cable subscription. Which perhaps explains why McGrail went on a rant about how the Sox are due for a comeback. Baseball Prospectus, which forecasts team standings based on statistical analysis, projects the team to finish fourth in its division, ahead of only the Baltimore Orioles. Still, NESN will cover each game with about 65 production staffers. "We're running 14 to 16 cameras down at Fenway," he says. "It's a big, big show." —*Austin Carr and Gerry Smith*

THE BOTTOM LINE RSNs are charging a lot for what some say are glitchy apps, potentially alienating fans. But if the networks charge less, they might cannibalize their cable business.

Coal Miners Turn Methane Into Power

● Climate advocates say a model in Australia should be replicated across the industry

Anglo American Plc's Moranbah North coal mine is among the biggest polluters in Australia. It's also being hailed as a potential climate role model for the fossil fuel sector. That's because London-based Anglo is curbing some of the most problematic emissions from this mine and two others by capturing methane—a greenhouse gas far more potent than carbon dioxide—from their underground coal seams through a series of shafts and networks of pipes. It's supplying that fuel to nearby homes and businesses and using it to produce electricity for the grid.

This is a rare example of a coal miner successfully deploying technology that advocates of faster climate action insist is critical to help tackle a major source of planetary warming. Australia, which dominates the supply of steelmaking coal, is among the more than 100 nations that have signed a pact pledging to cut global methane emissions to at least 30% below 2020 levels by 2030. To accomplish that, the country will have to find a way to reduce the release of coal mine methane, which accounts for a rising proportion of the nation's total methane emissions, currently almost a third.

Anglo estimates it's capturing just over 42% of the methane that would otherwise leak out of its mines. "If you believe there's a long-term future in steelmaking coal—and we do—we then fundamentally believe we have to be a responsible operator of that asset," says Daniel van der Westhuizen, chief executive officer of Anglo's Australian operations.

Coal mines are major emitters of methane, a greenhouse gas that's about 80 times more potent than CO_2 over a 20-year period. Methane accounts for almost a third of the rise in global temperatures since the Industrial Revolution, according to the International Energy Agency. While capturing methane from coal mines and burning it creates carbon emissions, it's less damaging to the climate than letting the methane leak out.

Australia doesn't require companies to capture or mitigate their methane emissions, but that's set to change after the government won support from the Greens party to pass a law requiring miners to do more to curb emissions. In the European ▶



▼ Anglo's Moranbah North coal mine

◀ Union, new methane rules include phasing out flaring and venting from coal mines above certain thresholds and requiring mines to measure and report emissions. China, which generates half of global methane emissions from coal mines, has no policy limiting them, though Beijing says it's developing one.

Anglo first started capturing methane to improve safety in 2006 at its German Creek coal mine in central Queensland and extended the practice to Moranbah North in 2008 and Grosvenor in 2016. High levels of the gas underground increase the risk of explosions.

At Moranbah North in northeast Queensland, methane is continuously collected as the mine is excavated. Each time Anglo prepares to open a new area of the site, its methane-capturing equipment drills down into the coal bed, sucks up residual water and collects the gas as it escapes. The premium-quality gas is sold on the domestic market, while the lower-quality gas—which also contains nitrogen, CO_2 and other gases—powers a nearby electricity generation facility run around the clock by the utility EDL.

Anglo estimates its methane-capture operations prevent the annual release of about 5.5 million tons of CO_2 equivalent—a measurement used to compare various greenhouse gases. The company says it's looking at the potential of capturing methane at its two surface mines, or "open-cut" operations. Glencore Plc and BHP Group Ltd. also capture some of the methane from their underground coal mines in Australia. Neither of the mining giants does so at open-cut mines, but both—like Anglo—say they're studying its potential.

Almost 80% of coal mines in Australia are open-cut, according to government figures. It's possible to capture some of the methane from surface mines by draining it from a coal seam before extraction begins, but because the risk of explosion is minimal at open-cut operations, Australian miners don't spend the time and money to do it. And once an open-cut mine gets going, it's not so simple to capture the methane. Both BHP and Glencore say that no commercial technology yet exists for capturing methane that escapes from a surface mine—known as fugitive emissions—during excavation.

Annika Reynolds, a climate policy adviser at London-based nonprofit climate research group Ember, says methane capture should be legally mandated across the industry in Australia, including draining the gas before new open-cut mines begin operations. They propose a policy designed specifically for methane. While they say new coal mines should be banned, the government has already ruled this out. By capturing methane at other underground sites, Ember estimates coal mine emissions in Australia could be nearly halved by 2030, at an annual cost of A$500 million ($337 million). "The outcome of that regulation would be significant investment into coal mine communities," Reynolds says. "It's almost a win-win." —*James Fernyhough, with Aaron Clark*

THE BOTTOM LINE Anglo's methane capture at its underground coal mines shows that the global sector can dramatically cut its greenhouse gas emissions with existing technology.

Struggling Under The Weight of Starz

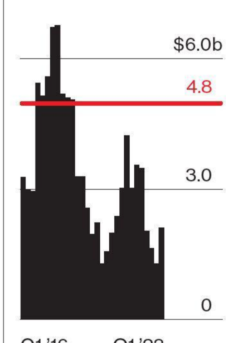
● Lionsgate plans to cut ties with the streaming service it bought in 2016 for $4.4 billion

On March 20 the Chinese Theatre along Hollywood's Walk of Fame lit up for the premiere of *John Wick: Chapter 4*, the latest installment in the hypersuccessful action film series. Keanu Reeves, who stars as assassin John Wick, mixed with fans and fellow cast members before the opening credits rolled to rapturous applause.

The movie, which opened in thousands of theaters around the world on March 24, would go on to make $138 million in its first weekend, offering a reprieve to Lions Gate Entertainment Corp., which has stumbled lately. Despite its library of almost 20,000 titles, including multibillion-dollar franchises such as *Twilight* and *The Hunger Games*, Lionsgate has struggled to find a buyer and has lost two-thirds of its market value over the past five years.

▼ Lionsgate market value

Projected valuation of studio alone after Starz sale*



Lionsgate's troubles stem from its 2016 purchase of the Starz cable channels and streaming service for $4.4 billion. That's double the market value of the entire company after Lionsgate last year wrote down the Starz acquisition by $1.5 billion. "While Lionsgate and Starz made sense, it's still far too small" to compete in a consolidating industry, says Rich Greenfield, an analyst at LightShed Partners.

Now Lionsgate is seeking to unwind the purchase, giving current stockholders one share in the studio and one in Starz for each share they hold in Lionsgate. "Take the stock price today, and once you do a separation, you add up what your value is, and if that number is not higher,

PHOTO ILLUSTRATION BY 731; PHOTOS: GETTY IMAGES (2); ALAMY (1). *BASED ON 12X MEDIA MULTIPLE, CALCULATED BY BLOOMBERG. DATA: COMPILED BY BLOOMBERG



I should be fired," Michael Burns, Lionsgate's vice chairman, said at a Morgan Stanley conference in San Francisco on March 7.

The two companies tied up at a time when challengers such as Netflix Inc. and Amazon.com Inc. were the envy of the stock market, and entertainment giants from Comcast Corp. to Walt Disney Co. were racing to create online platforms. Since then, the decline of cable TV and the huge costs of creating or buying content have dogged media players old and new.

In the most recent quarter, Starz lost 200,000 subscribers, which Lionsgate attributed to fewer new shows being on the platform. It's less than one-fifth the size of Netflix, and it's exiting seven markets, including France, Germany and Japan. Lionsgate's studio division, by contrast, reported strong revenue from box office sales and farming out its library of films and TV shows to rival streamers, which generated close to $1 billion. The studio is "worth way more than anybody" values it, says Joe Drake, who runs Lionsgate's film business. "People will finally be able to see and value what this standalone, pure content business is doing."

In some ways, Lionsgate has already started operating as if Starz were in the rearview mirror. The TV division, which has produced shows such as *Mad Men* and *Orange Is the New Black*, last year made *The Continental*, a John Wick spinoff that was headed to Starz. But it was pulled from the Starz lineup after Amazon and Comcast's Peacock streaming service offered Lionsgate $100 million for the show, according to a person familiar with the deal who asked not to be named because the information is private. Lionsgate declined to comment on the price.

Lionsgate executives, who rejected a hostile bid from Carl Icahn in 2010, have repeatedly raised the idea of a sale. In 2017, Chairman Mark Rachesky, whose hedge fund owns about a quarter of the company's shares, turned down an offer from toymaker Hasbro Inc., arguing that it was too low—though it was four times Lionsgate's value today. In recent months, rumors have linked Lionsgate to potential buyers such as French conglomerate Vivendi, private equity firm Apollo Global Management and streaming device maker Roku, but no deal has been announced and the companies have declined to comment.

Burns and Jon Feltheimer, Lionsgate's chief executive officer, have said Amazon's acquisition of Metro-Goldwyn-Mayer last year for $8.5 billion is a good basis for valuing Lionsgate, but Bloomberg Intelligence estimates the value of the studio alone at $4.8 billion. While the studio could soar, Starz risks struggling on its own, says JPMorgan Chase analyst Philip Cusick, who downgraded Lionsgate's stock in December. Declining cable-TV subscriptions and growing competition in streaming, he said, "makes us question anyone's need for the Starz platform." —*Thomas Buckley*

THE BOTTOM LINE Starz lost 200,000 subscribers last quarter and is exiting seven markets, while Lionsgate's studio division sold some $1 billion in content to rival streamers.



The Silicon Valley Bank Hangover

● The failure of venture capital's favorite financial institution is a sign of more trouble to come for tech

Halogen Ventures founding partner Jesse Draper was in the midst of planning a private dinner party with Silicon Valley Bank when the financial institution failed on March 9.

Draper's event, at which she and one of her SVB contacts planned to bring together two dozen first-time female venture investors, was exactly the sort of party that lubricated venture capital's startup-creation machine, and the kind the bank was famous for helping arrange. SVB served not only as a place for startups and VC firms to keep their money, but also as a creditor, investor, customer, personal financial adviser, recruiter and matchmaker for the people and companies that make up the startup industry. Although signs of trouble had been mounting for a year, SVB's sudden failure felt like an acute trauma to industry insiders. But maybe the party that the entire industry had been having since Draper was a teenager was also finally waning. "Someone just threw a bomb into tech," she says. "What are we supposed to do now?"

The immediate crisis at SVB has been mostly resolved. Within days of taking it over, the Federal Deposit Insurance Corp. had guaranteed all its deposits, effectively extending the $250,000 limit on insurance to the moon. On March 26 the FDIC announced that First Citizens BancShares Inc. was buying the bank, assuming $56 billion in deposits and agreeing to operate 17 legacy branches under the brand "Silicon Valley Bank, a division of First Citizens Bank." The doomsday scenarios that first rattled around the Valley's podcasts and group chats—in which the cash reserves of thousands of startups and investment firms simply evaporated, leading to a cascade of shuttered businesses and a generation of lost innovation—wouldn't come to pass. But reverberations from the crisis will continue for the foreseeable future.

Venture capitalists always believe they'll come out on top, says Ben Mathews, a general partner

Edited by Joshua Brustein

ILLUSTRATION BY RISTO AVRAMOVSKI. PHOTOGRAPH BY MICHELLE GROSKOPF FOR BLOOMBERG BUSINESSWEEK. DATA: PITCHBOOK

at Night Ventures. “Everyone who does this job is wildly overconfident,” he says. “You have to be if you want to succeed.” After a rough 2022, investors were just starting to get excited this spring about generative artificial intelligence really turning into the next big thing. Then the SVB crisis shook people into accepting the continued severity of the tech downturn and admitting that the core challenges that come with the end of easy money haven’t been solved. “It’s the quiet before the storm now,” Mathews says. “Lots of people will run out of cash in June.”

It’s more useful to view SVB’s failure not as the cause of the venture capital industry’s problems, but as a symptom. For a long time, SVB’s model as the safe and steady banker for the all-in world of VC-backed tech startups worked well. Venture firms in the US raised $163 billion to invest in startups in 2022, seven times the amount a decade earlier, according to the National Venture Capital Association. All that money is still destined to go into startups, but venture capitalists have been slow to invest as they try to interpret signs of trouble in the economy. SVB’s customers included roughly half of the US’s tech and life sciences startups and almost every one of its 1,000 VC firms.

The cash flooding the venture ecosystem was largely a result of the unprecedented period of low interest rates that had prevailed since the 2008 financial crisis. Pension funds, endowments and other large pools of institutional money that faced piddling returns through the safest investments had to seek out financial vehicles with the potential for higher profits. It was hard to resist venture capital, which had produced windfalls by backing the startups that turned into such giant corporations as Alphabet Inc. and Meta Platforms Inc., especially when the next crop always seemed poised to produce a few more world-changing companies.



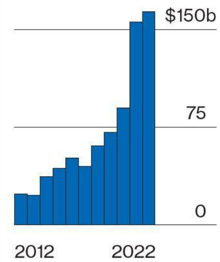
Interest-rate hikes to curb Covid-era inflation and the war in Ukraine are breaking those dynamics in all kinds of ways. The immediate cause of SVB’s troubles was its seemingly conservative decision to invest heavily in 10-year Treasury bonds. The low return on those bonds became a liability as interest rates spiked. SVB had to pay higher rates to depositors, and the market price of bonds with low interest rates dropped. Startups finding it harder to raise new funds and often facing higher operational costs were spending down their cash stashes, draining money from SVB. The bank held mark-to-market losses in excess of $15 billion at the end of 2022 for securities held to maturity, just shy of its entire $16.2 billion equity base, according to a February filing. Panic spread quickly once people in tech grasped the situation, sparking a classic bank run.

Rising interest rates have also slammed the crypto industry, slowed demand for services that many startups are peddling and contributed to the mass layoffs at large tech companies. The US Federal Reserve, weighing the need to stem inflation against concern about SVB’s failure spreading into a broader crisis, raised rates again on March 22, even as it suggested the run of increases was nearing completion. This will continue to strain both venture firms and the startups they invest in, with unpredictable consequences.

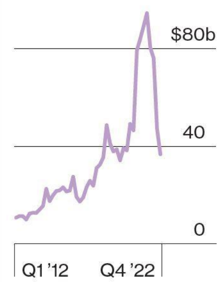
Phil Haslett, co-founder of EquityZen, an online marketplace where people trade shares of pre-IPO startups, says skittish venture capitalists are already taking longer to complete deals and dwelling on due diligence for startups in ways they’d never done. The same firms, he says, are also more focused on trying to ensure their existing investments pay off than on making new ones.

Haslett expects startups that have held out for favorable terms on new investments are on the verge of accepting reality and will have to start taking money on less attractive terms. In many cases, this will mean accepting lower valuations than they received in previous fundraising rounds, deals known as “down rounds” that have traditionally signaled a startup is in trouble. Shares traded on EquityZen during the second half of 2022 had been going for less than half their previous values. There were signs that things were turning around early this year, Haslett says, but then “SVB happened. It iced out optimism.” ▶

▼ New US venture capital funds raised



▼ New VC funding invested in startups



● Amount venture firms in the US raised to invest in startups in 2022

$163b

◀ Draper

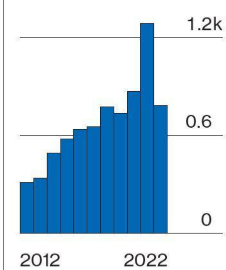
◀ John Nordin, co-founder of J Ventures, a small firm focused on early-stage startups, says he's worried he could be on a "road to nowhere" if he invests in startups that then have trouble landing future rounds from larger investors. Even if his firm picks the right startups, he says, it can't succeed if the broader investment environment breaks down. In one ominous sign, Nordin had reached a deal to hire an executive from a publicly traded tech company for a senior role at one of the startups backed by J Ventures. She backed out when she saw what happened at SVB. "She was clear, saying that the whole market had changed," Nordin says. "She didn't want to take the risk."

A sustained period of higher interest rates could also change the calculations at the institutional investors on which venture firms rely for their capital, influencing the types of firms they back. The VC industry did raise more money in 2022 than the year before, but the number of firms that raised money fell to pre-Covid levels. This is an indication that smaller firms without a track record of success are facing increased skepticism, according to Maëlle Gavet, chief executive officer of Techstars, an early-stage investor that's backed more than 3,500 startups and has worked with 24,000 VCs.

Venture firms that can't raise new money will eventually shut down—or simply spend their remaining cash and go dormant. "The magic words were 'I'm going to focus on my family' or 'I'm going to focus on the fund I already have.' That's their way of saying they aren't going to raise again," Gavet says. "There's an increasing number that are not doing anything new but aren't quite dead either. They're zombie funds." —*Lizette Chapman*

THE BOTTOM LINE The foundation of the financial system that produced a decade-long startup boom is being shaken in ways that point to more pain ahead.

▼ Number of VC funds that raised new capital



Carnegie Mellon's Moonshot

● A group of students plans to launch a lunar rover in May

The US was the first and only country to put humans on the moon, but NASA has been noticeably absent from the international competition to put robots there. The USSR landed the first lunar robotic rovers in the 1970s; India tried and failed to land one in 2019. The only lunar rover in operation is China's Yutu-2, a 300-pound machine that's spent the past four years prowling almost two-thirds of a mile across the moon's far side, sending back images of rocks. Greece, Japan and the United Arab Emirates are among those working on their own lunar rover programs.

It seems likely that NASA's robots will also be beaten by a group made up primarily of students at Carnegie Mellon University. About 300 of them worked on a rover named Iris that they plan to send to the moon aboard a commercial lunar lander scheduled to launch on May 4.

Nikolai Stefanov, who was a 19-year-old physics undergraduate, joined up after coming across a poster advertising the project with the motto, "There is never a second chance to be first." Given his lack of experience, he offered to fetch coffee for the people doing the technical work. Stefanov, now 22, wound up with another job: mission control director. Once the rover lands on the moon, he'll make sure things are running smoothly.

Iris is about the size of a shoebox and weighs a little less than 4.5 pounds, which would make it the smallest and lightest rover yet to reach the moon. It's also the first to be made from carbon fiber, rather than aluminum. Part of the reason to build such a small rover was so its creators



◀ An engineering model of Iris

CARNEGIE MELLON UNIVERSITY (2). DATA: PITCHBOOK

could afford to hitch a ride on a private flight. The company operating the landing, a CMU spinoff called Astrobotic Technology, is taking 14 payloads to the moon. CMU won't say how much Iris's ticket cost, but the whole project has come in at $800,000. The university has provided some of the financial backing, as have private donors, in part through a crowdfunding campaign supporting CMU's lunar projects. Each of the 900 people who contributed, many of them students, will have their name carried to the moon in a text file aboard Iris.

As a tool of scientific observation, Iris isn't the most powerful instrument. It has just a single camera at the front and back, which will make distinguishing shadowy rocks from craters especially difficult. Iris has the advantage, though, of being low to the ground, meaning its camera could capture close-up images of moon dust. Despite its limitations, Iris is an undeniable step forward for the private space industry. It's set to be the first rover not built by a nation-state to land on an extraterrestrial body. "We want to open up space to everybody," Stefanov says.

Success isn't guaranteed. If Iris makes it past launch and survives the vibrations of space, strong electromagnetic fields and a moon landing, it still has to deal with extreme temperatures and the challenges of navigating the moon's surface. Iris has about 50 hours of battery life, during which time its creators hope it can capture photos and send them back to Earth. Once its batteries run out, it will remain on the moon.

The official US space program puts a greater focus on Mars than on the moon. NASA has landed five rovers on the planet, the first one in 1997. It's planning on sending its first rover, a 1,000-pound robot named Viper, to the moon in November 2024. Viper will map the moon's resources and try to identify the location and concentration of ice.



◀ Duvall (right) leads a mission simulation

CMU expects its students to be a fixture of lunar exploration. It's planning another student-made rover, a $5 million project called MoonRanger and funded by NASA. MoonRanger will be designed to head to the moon's south pole to look for ice, believed to be buried a yard or so beneath its crust. That might make the rover a good candidate to accompany NASA's planned water-seeking mission to the moon, which is intended to land two Americans at the lunar south pole in 2025. They'd be the first humans on the moon in more than 50 years.

Raewyn Duvall, the 28-year-old project lead for Iris, previously worked at NASA and is now a Ph.D. student at CMU. She says rovers will pave the way for humans living in outer space, a scenario she says is inevitable. Rovers can prepare landing areas, then create human-friendly habitats by doing things such as extracting hydrogen and oxygen from lunar regolith—moon dust—for use as water, air and rocket fuel. "Robots are really the way to find the best locations and the resources where humans should be going next," Duvall says. —*Katrina Manson*

THE BOTTOM LINE At a time when nongovernmental entities are increasingly involved in space, a student-led lunar mission is set to land the first US-made robotic rover on the moon.

Can Anyone Fix This?



ILLUSTRATION BY SISI KIM. PHOTOS: BLOOMBERG (2)

● UBS takes over Credit Suisse to save it, and the future of Swiss banking is at stake

Marcel Ospel, the Swiss banker dubbed "*Herr der UBS*," or "Master of UBS," by his biographer, had a story about what happens when the mighty fall. He built UBS Group AG into a global behemoth, and became one of the leading financial figures of his time, only to see the bank come close to collapse during the 2008 financial crisis.

Scorned as a national failure, Ospel later bumped into a lawyer he knew. He got the cold shoulder. "When I was head of UBS," he sadly recalled to the biographer, "this guy would do anything I wanted."

Ospel didn't live to see today's great humbling in Zurich (he died in 2020, at age 70). But his sentiment then—once we were kings, all things must pass—seems even more apt now. Fifteen years after UBS had to be bailed out, rival Credit Suisse Group AG has collapsed into its arms. The twin pillars of Swiss banking as the world has known them have become one monolith towering over the local competition.

Just about everything that once made Switzerland a byword for world-class finance—stability and discretion combined with global ambition—has been tested and found wanting. "The damage to Switzerland's reputation is going to be terrible," says Arturo Bris, a professor of finance at IMD business school in Lausanne.

For rich little Switzerland, the implications are

Edited by
Pat Regnier

enormous. Its famous tradition of bank secrecy has already been eroded, to the dismay of wealthy tax cheats everywhere. Centuries of Swiss neutrality have been challenged by the war in Ukraine. And now, should UBS ever run into trouble, as it did in Ospel's day, the country's reputation could be tried once more. The combined UBS is about twice the size of Switzerland's entire annual economy. It isn't simply too big to fail—it's too big to bail. In all likelihood, Switzerland couldn't rescue it on its own.

This UBS-Credit Suisse deal, hastily brokered by Bern, will alter the world's financial landscape. Even before this shock, Singapore—the humid Switzerland of Asia—was closing in on the private-wealth managers of Zurich and Geneva. This will only speed the rise of Switzerland's international rivals.

In this context, personnel is political. Reverting to a tradition of having a Swiss executive hold one of the top two jobs at the bank, UBS on March 29 announced that Dutchman Ralph Hamers would be replaced as chief executive officer by Lugano-born Sergio Ermotti, who ran the bank from 2011 to 2020. Chairman Colm Kelleher, who is Irish, said in a press conference that Ermotti's citizenship is a "nice thing" but didn't determine the choice. Regulators encouraged UBS to bring Ermotti back, people familiar with the talks told Bloomberg News.

How did Switzerland's banks get here? Slowly, then all at once. For much of its history, Credit Suisse stood at the pinnacle of world finance, bankrolling 19th century Swiss railroads and 20th century Silicon Valley and tending the fortunes of the rich from the French Riviera to Russia. And yet, Credit Suisse had been a slow-motion train wreck for decades. Its first stumbles can be traced as far back as the 1980s, when it began tilting at the giants of Wall Street. Credit Suisse swallowed First Boston Corp., a Wall Street bank with an appetite for risk. Then, at the height of the '90s dot-com bubble, it acquired midtier Donaldson, Lufkin & Jenrette, which turned out to be a costly fumble as top DLJ bankers headed for the door.

And then: scandal after scandal after scandal after scandal. There was the massive "Suisse Secrets" leak to the press that exposed the hidden wealth of clients involved in drug trafficking, kleptocracy and money laundering. And the top banker who defrauded a clutch of Georgian and Russian clients while the bosses ignored red flags, a court concluded. And the corporate espionage saga that led to the ouster in 2020 of then-CEO Tidjane Thiam, though he was absolved of personal responsibility in an internal probe. And those two infamous blowups in 2021: Stock trader Bill Hwang managed to lose billions of dollars using Credit Suisse loans, and the collapse of fintech entrepreneur Lex Greensill's business forced the bank to freeze $10 billion of supply chain finance funds it had marketed as safe.

In October the latest CEO of Credit Suisse, Ulrich Koerner—the third in as many years—unveiled a plan to fix the mess once and for all. He never got the chance. With financial markets on edge after the March 10 collapse of Silicon Valley Bank, all it took was one spark to set Credit Suisse ablaze. When the chairman of Saudi National Bank, Credit Suisse's biggest shareholder, told Bloomberg News that his bank would "absolutely not" increase its stake, primarily for regulatory reasons, investors panicked, and the desperate race to broker a rescue deal was on. (Twelve days later, the Saudi bank chairman resigned, citing personal reasons.)

Initially, UBS looked like the only winner, particularly given generous government guarantees that came with the deal. Swiss authorities tore up the playbook they'd written following the 2008 financial crisis. Shareholders were left with scraps. Holders of $17 billion of Credit Suisse's so-called CoCo bonds—sometimes described as high-yield investments with a hand grenade attached—got wiped out. Swiss taxpayers have been left with a bank far bigger than this country of 8.7 million people should have to worry about.

Maybe it was the least bad plan. Finance Minister Karin Keller-Sutter told one Swiss newspaper that the bank wouldn't have survived one more working day and that "we should have expected a global financial crisis," as "the crash of CS would have sent other banks into the abyss." Andrea Schenker-Wicki, an economist and president of the University of Basel, says the Swiss government prevented a global panic—for now. The question is what happens later should UBS ever run into trouble. "To me, it means that a problem of the present has been fixed, but a future problem has been created," Schenker-Wicki says.

Others have similar qualms. By letting UBS buy Credit Suisse on its own favorable terms, the staid, orderly Swiss may have set the stage for future calamity. "To paraphrase Warren Buffett, the new, expanded UBS might well become a financial weapon of mass destruction, capable in a collapse of taking down the entire Swiss economy with it," says Jared Bibler, a former regulator at the Swiss Stock Exchange.

The irony is that Switzerland spent 15 years workshopping its financial-crisis strategy—and then ignored it. "All other options were more risky for the state," Keller-Sutter said in the newspaper ▶



● Hamers



● Ermotti

◀ interview. To get the deal done, Swiss authorities invoked an emergency clause in the constitution that enabled them to waive shareholder rights and suspend an antitrust probe—a rare if not unprecedented step in the nation's financial markets. Expect lawsuits.

Markets can have short memories. But private-wealth clients and investors are unlikely to forget this one. For many, the UBS-Credit Suisse deal has badly tarnished Switzerland's image abroad. "Right now, Singaporeans are opening the Champagne," says Bris, the IMD professor. "This is going to be the turning point." As for Swiss banking, yes, other, smaller players will endure and even prosper in the vast shadow of UBS—like Banque Pictet & Cie. and Banque Lombard Odier & Cie. Although private banks manage hundreds of billions of dollars in assets, these are hardly the Goldmans or JPMorgan Chases of global finance with both wealth management and investment banking arms.

Meanwhile, Wall Street heavyweights and banks from Europe will almost certainly cast an eye toward Switzerland as a place to open up shop now that there's one fewer competitor to deal with. And Geneva, a city often looked down upon among Zurich bankers as not properly Swiss and as a haven for dirty money, will benefit, too. Wealthy investors who once split their fortunes between UBS and Credit Suisse will be inclined to shop around. "There is going to be a diversification effect," Lombard Odier senior partner Hubert Keller told Bloomberg News.

For all the problems UBS will be inheriting—from ongoing legal cases to one whopper of an integration headache—it gives the bank huge opportunities. It now reenters the top 20 global banks, as measured by total assets, and will become the second-largest global wealth manager behind Morgan Stanley and the third-biggest asset manager in Europe.

But back home, this is going to take some adjusting. Visit any small town in Switzerland, and there's almost always a branch of both Credit Suisse and UBS. A typical person might have a bank account with UBS, a mortgage with Credit Suisse and a pension fund managed by UBS. That choice narrows once this deal is done, leaving customers potentially facing higher costs or being pushed to smaller rivals that are less well-equipped to offer sophisticated international banking services. Opinion polls in Switzerland show more than half of people oppose the merger and only 1 in 20 fully endorse it. Already, there's political pressure to spin off Credit Suisse's domestic banking unit from the new giant.

Switzerland could become a more expensive place to negotiate a mortgage or raise capital because UBS no longer has to hustle against its main rival. That will undermine the ability of export-oriented companies to compete abroad. Clariant AG, a Swiss specialty chemicals maker, stuck its head above the parapet to express its displeasure with the deal and specifically what it believes will be UBS's newfound pricing power. "It is certainly not good that there is now only one big bank," a Clariant spokesperson told Bloomberg News.

Credit Suisse had signaled it planned to cut 9,000 jobs worldwide as part of the restructuring plan that never was. Add to that the redundancies expected from the merger—the two banks together have about 37,000 staff in Switzerland already—and the number is expected to tick much higher. The sense of gloom on Paradeplatz, the grand square in Zurich where Credit Suisse is headquartered, is almost palpable. "It's very bad at the moment—we have lost trust in this institution," says Tomas Prenosil, CEO of luxury confectioner Confiserie Spruengli, inside the company's flagship cafe on the square, a spot it's occupied since 1859. Cutting jobs, of course, has an impact on surrounding businesses. "Many bank employees are longtime and loyal customers," he says.

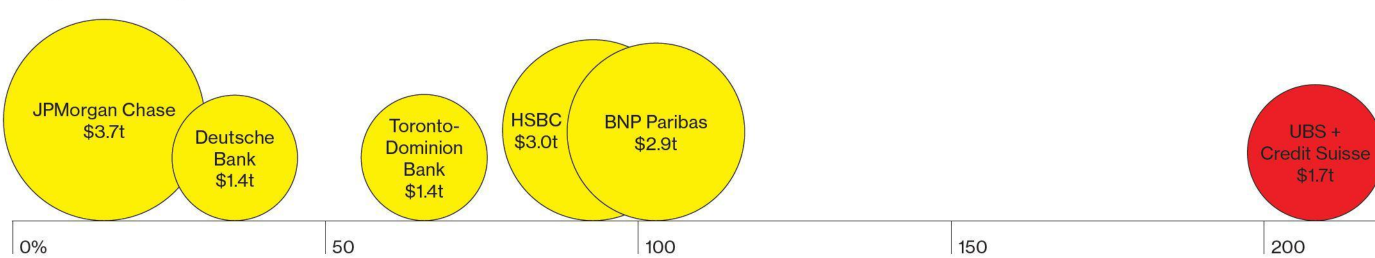
Above all, Swiss banking will have to become more boring, a necessary antidote to avoid

"Right now, Singaporeans are opening the Champagne"



● Koerner

Large Banks by Total Assets



Bank assets as a percentage of the GDP of its nation of domicile

TOTAL ASSETS AS OF DEC. 31, 2022, EXCEPT TORONTO-DOMINION, WHICH IS AS OF JAN. 31, 2023. GDP FIGURES ARE 2022 ESTIMATES. DATA: BLOOMBERG, INTERNATIONAL MONETARY FUND

ILLUSTRATION BY CHANYU CHEN. PHOTO: BLOOMBERG. INVESTMENT SECURITIES FIGURES INCLUDE AVAILABLE-FOR-SALE AND HELD-TO-MATURITY SECURITIES. INSURED CALL REPORT FILERS ONLY. DATA: FEDERAL DEPOSIT INSURANCE CORP., BLOOMBERG

repeating the excessive risk-taking and ensuing scandals that led to Credit Suisse's demise.

The deal and the emergency ordinances needed to shoehorn it through will be the focus of an extraordinary assembly of the Swiss parliament in April. The politicians may think they're in control, but right now the bankers at UBS seem more powerful, says Bibler, the former regulator: "We all work for UBS now." *—Hugo Miller and Jan-Henrik Foerster, with Paula Doenecke, Marion Halftermeyer and Myriam Balezou*

THE BOTTOM LINE Switzerland's top bank has suddenly become an even bigger global player, but inside the country people are worried about competition, power and future stability.

Losing a Fortune on Safe Assets

● Yes, US Treasuries are low on credit risk. But interest rates can still run you over



Look deeper into the latest US banking crisis, and the cause may come as a surprise to anyone still thinking in terms of the crash of 2008. It wasn't dodgy loans to impecunious homebuyers that sank Silicon Valley Bank. It was a stash of what are thought to be the safest securities on Earth: US Treasuries.

Those loans to the government were, of course, entirely safe in a very important sense. Uncle Sam is going to be good for the cash. (Set aside an unforeseen disaster with the debt ceiling—more on that in a moment.) But the final repayment date of SVB's bonds was typically years away. The problem is what happens to their price in the meantime. Purchased during a time of ultralow interest rates, those long-maturity Treasuries were always liable to lose their immediate resale value if rates took off. Which they've done in a big way over the past year.

The Federal Reserve raised rates at the fastest pace in decades to tame inflation, pushing its key policy rate from about zero to a range of 4.75% to 5%. Treasury prices spiraled downward, because bond prices move in the opposite direction of rates. That's only an immediate problem for someone who wants to sell a bond before it matures. Unfortunately for SVB, it fell into that category. Its clients, many of whom had much more than $250,000—the cap on federal deposit insurance—at the bank, got nervous and started yanking out their money. SVB could only sell Treasury holdings, as well as mortgage bonds backed by government agencies, at steep losses. The bank collapsed within days.

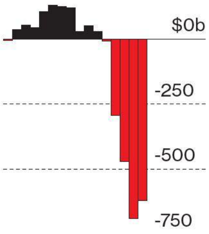
"We always refer to Treasuries as the world's safest asset," says Paul McCulley, the former chief economist for Pacific Investment Management Co. "That's from the standpoint of credit quality. That's not from the standpoint of asset price stability. There's a huge difference."

Kim Forrest, chief investment officer of Pittsburgh-based Bokeh Capital Partners, says she can't get over how SVB bankers failed to spot the risk they were taking. "It's kind of head-spinning," she says. "What the heck happened? The supposedly bright people out in Silicon Valley couldn't put that together and do a little calculus?"

Most banks don't have as many uninsured deposits from jumpy tech startups as SVB did, but US lenders hold more than $4 trillion in government-backed securities. And Treasuries last year posted their worst losses since at least the early 1970s, with the longest-dated ones tumbling almost 30%. That's one reason fear of bank contagion won't go away, even after the Department of the Treasury, the Fed and the Federal Deposit Insurance Corp. swooped in to offer emergency protection for all depositors at SVB and New York's Signature Bank, which collapsed at about the same time. Policymakers haven't said for sure whether other lenders will enjoy the same cover. Deposits have continued to flow out of banks—especially smaller, regional ones.

The Fed loaned billions to banks after SVB's collapse to ensure their liquidity, including new emergency programs that offered generous terms for ▶

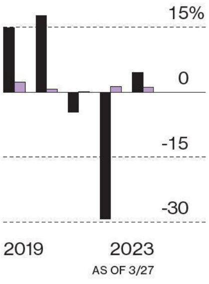
▼ Unrealized gains and losses on investment securities at FDIC-insured institutions



▼ Total return of Bloomberg US Treasury indexes

■ Long-maturity bonds

■ Short-maturity bills



◀ borrowing against Treasuries and other bonds that had lost value. Essentially, the central bank—which already holds trillions of dollars' worth of the low-yielding debt issued in the pandemic—was taking even more interest-rate risk out of the banking system. But the Fed is also pushing ahead with monetary tightening. It raised rates another quarter of a percentage point on March 22.

Rising rates aren't the only problem in the $24 trillion Treasury market. Another is a long-standing concern about the market's liquidity—essentially, the ease with which trades can be carried out. Many institutions and businesses count on the Treasury market to function smoothly. The past month's fear and uncertainty have created near-unprecedented volatility, with the largest swings in some yields seen in 40 years. Liquidity was "significantly compromised," JPMorgan Chase & Co. strategists told clients in mid-March, as trading in Treasuries surged to a record $1.5 trillion on one day.

There are various explanations of the liquidity problem. Treasury debt has ballooned by more than $7 trillion since the end of 2019, and there's a widespread belief that the size of the market has outstripped the capacity of bank dealers to keep it orderly. Many say regulations imposed on banks after the 2008 financial crisis have also crimped dealers' ability to keep enough bonds on hand to make sure buying and selling proceeds without hiccups.

Then there's the looming debt ceiling standoff—the possibility that politicians won't reach a compromise on raising the nation's self-imposed borrowing limit. Failure to do so before the Treasury runs out of ways to keep funding government spending could potentially trigger an unprecedented default on US public debt and throw a wrench into the global financial system that relies on Treasuries.

For many Americans seeking a risk-free asset, cash seems like the best option. Below the $250,000 cap on FDIC insurance, a bank account is reliable. But many individual and institutional savers alike have over the past months been seeking other options, like higher-yielding US money funds—which just attracted their biggest weekly influx since early in the pandemic. Those funds invest heavily in Treasuries, though at very short maturities that largely protect them from interest-rate risk. How much more volatility is in store for Treasuries—and how much more damage the financial system suffers as a result—mostly hinges on the Fed. History suggests the US central bank has a poor track record when it comes to pulling off a major policy shift without something blowing up. SVB is already Exhibit A for this cycle.

McCulley recalls the wrecking of the US savings and loan industry in the 1980s—smallish mortgage lenders who went bust partly as a result of the same kind of rate risk that's piled up on bank balance sheets today. He points out that the Fed has been raising rates at the fastest pace since back then, when former Chair Paul Volcker oversaw the inflation fight. And he says his key question for the Fed is this: "For the last year you've been channeling Paul Volcker. How much Volcker is too much Volcker?" *—Liz Capo McCormick, Ben Holland and Edward Harrison*

THE BOTTOM LINE Bets on interest rates came back to haunt bankers who lost sight of the basics of bond management—and there could be more surprises in store for Treasuries.

The Crypto Crackdown Is Here

● Whether exchanges are overseas, in the US or "decentralized," they can't escape scrutiny



ILLUSTRATION BY PETRA PÉTERFFY. PHOTO: BLOOMBERG

Crypto's been hit by a regulatory Big Bang. On March 27, the US Commodity Futures Trading Commission sued Binance, the world's biggest digital-asset exchange, for allegedly allowing US customers to trade on its offshore platform even though it claimed not to. Just the week before, news broke that the US Securities and Exchange Commission is scrutinizing Coinbase Global Inc., the largest US crypto platform, as well as Sushi, a popular

"decentralized" app for trading hundreds of tokens.

Also in March, the SEC sued crypto entrepreneur Justin Sun for allegedly manipulating the market—and accused celebrities, including Lindsay Lohan and Jake Paul, of promoting Sun's tokens without disclosing they were paid to do so. The implicit message from regulators: They're out to tame almost every corner of the crypto market, whether Americans are trading on US exchanges or offshore ones, or on platforms run by traditional companies or apps supposedly run by code.

"It's a regulatory onslaught and crackdown of epic proportions, and it's only going to get bigger," says John Reed Stark, a consultant who was founder and chief of the SEC's Office of Internet Enforcement. "They are beginning to focus more on the major players—that's a major shift. These companies are running out of runway."

Crypto regulation in the US is roughly split between two agencies, sometimes muddying the waters. The CFTC oversees futures, options and other derivatives, including contracts based on Bitcoin, which are popular on the international Binance exchange. The SEC has authority over markets for anything that counts as a security—legally, an investment in an enterprise expected to make a profit from the efforts of others. Since bringing its first crypto case in 2013, the SEC has gone after initial coin offerings, crypto lenders and various scams. The industry tended to brush off the cases as one-offs, while insisting that much of the crypto business didn't fit the definition of a security and didn't need to be registered with the SEC.

But last year—as losses for retail crypto investors soared and the FTX exchange collapsed amid allegations of fraud—the SEC ramped up enforcement. Signs of an even bigger confrontation kept mounting. For months, SEC Chair Gary Gensler asserted in speeches that almost all cryptocurrencies are securities, and should be subject to the same disclosure and investor protection rules, yet exchanges continued to trade them. He called stablecoins—which are supposed to be less volatile than typical crypto—"the poker chip in the casino." But the stablecoin business flourished.

Then came March. On the 22nd the SEC accused Sun, who founded the Tron blockchain, of having employees make trades that artificially inflated token trading volume. Sun tweeted that "we believe the complaint lacks merit." Six of eight celebrities the SEC accused of touting tokens tied to Sun's companies, including Lohan and Paul, settled without admitting or denying the allegations.

The same day, Coinbase received a notification from the SEC—known as a Wells notice—threatening to sue over some of its listed digital assets and products. If the case ends up being as sweeping as it appears, it could send shock waves through crypto. "The SEC has stated its position many times that almost all crypto assets are securities," says Hilary Allen, a law professor at American University. "If the Wells notice precedes an enforcement action relating to Coinbase operating an unregistered securities exchange, then it will be a very big deal." Most coins besides Bitcoin, which the CFTC regards as a commodity, could then potentially be counted as securities, requiring expensive and extensive disclosures and registrations. Exchanges could be vulnerable to fines for the way they've done business until now.

Coinbase says it will fight any SEC complaint in court. It insists it doesn't list any securities. "After years of asking for reasonable crypto rules, we're disappointed that the SEC is considering courts over constructive dialogue," Coinbase Chief Legal Officer Paul Grewal said in a March 22 tweet. "But if courts are required, so be it. We'll defend the rule of law."



● Zhao

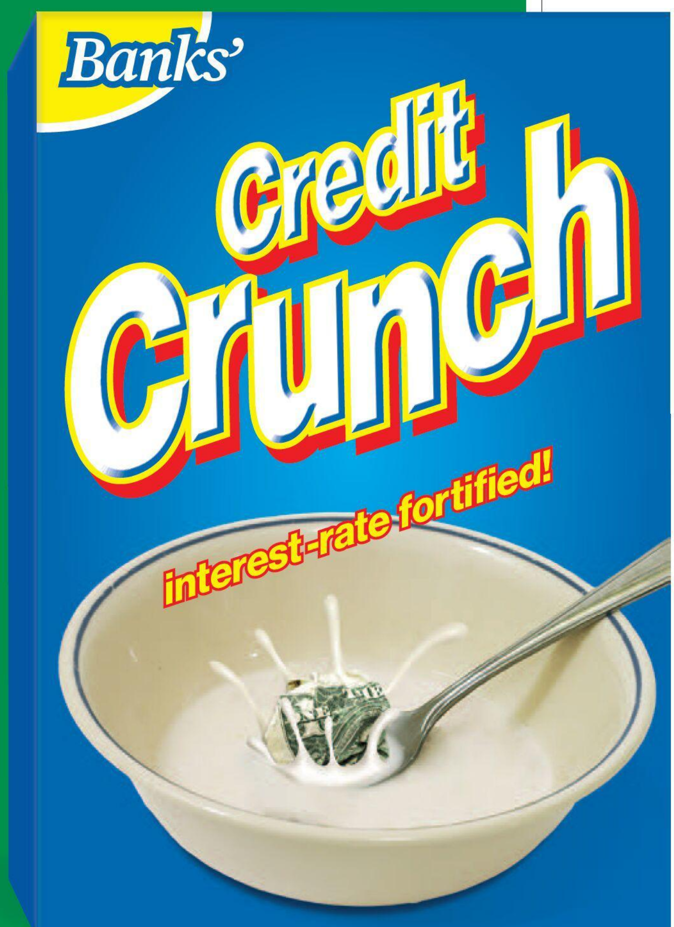
According to the CFTC's lawsuit against Binance and Chief Executive Officer Changpeng Zhao, the company helped or instructed US customers—including professional trading firms—to use virtual private networks, or VPNs, and other methods to obscure their location. Binance's international exchange, which has no official headquarters, allows users to make more-leveraged and riskier trades than is generally allowed on US exchanges. It isn't registered with the CFTC. The agency called Binance's compliance effort "a sham" and accused it of having weak anti-money-laundering controls. In a blog post, Zhao said the complaint was based on "incomplete" facts and disputed the allegations. A Binance spokesperson says the company has made "significant investments" in the past two years in keeping US users off the platform.

"These companies are running out of runway"

Decentralized finance, or DeFi, projects may need to rethink their operations. The Sushi exchange disclosed on March 21 that it had received an SEC subpoena without saying why. DeFi exchanges in theory are run by computer code and their communities of users instead of by traditional companies. But in a speech last year, Gensler said centralized and decentralized crypto platforms need to register with the agency. "I guess there are a lot of participants in the crypto markets who think, 'Oh, this is decentralized, this is unstoppable,'" says Henry Elder, head of decentralized finance at Wave Digital Assets. "This is absolutely a wake-up call." —*Olga Kharif, with Allyson Versprille and Lydia Beyoud*

THE BOTTOM LINE Many in the crypto industry have acted as if they are outside the purview of US regulators, but a wave of enforcement news shows that the watchdogs disagree.

Have Banks Lost Their Appetite for Lending?



Tighter credit, on top of the Fed's rate hikes, could hasten a recession

Edited by Cristina Lindblad

The biggest banking scare since the 2008 financial crisis will ricochet through the economy for months as households and businesses find it harder to gain access to credit.

That's the scenario facing the US after the collapse of three regional lenders, and a giant global one, over an 11-day span, according to several economists. Federal Reserve Bank of Minneapolis President Neel Kashkari, in a March 26 interview on CBS's *Face the Nation*, said the turmoil "definitely brings us closer" to a recession and noted that officials are closely watching for signs of a widespread credit crunch.

The concern is that banks will curb lending in response to increased regulatory scrutiny, erosion in deposits or a drop in the value of their equity, at a time when the Fed is already pushing ahead with the most aggressive cycle of interest-rate hikes in 40 years.

The Fed's benchmark interest rate is at its highest level since 2007, the eve of the financial crisis. Small and medium-size banks in particular are expected to tighten lending standards, which will hurt households, property prices and the kind of midsize companies that make up the backbone of the economy. UBS Group AG estimates smaller and regional banks hold about 39% of commercial real estate debt.

Although it will take months before solid trends emerge from available data on bank lending, history is littered with examples of tighter credit conditions leading to higher unemployment and slower economic activity. In an analysis of three academic studies, Goldman Sachs Group Inc. concluded the recent turmoil may lead to a 2% to 5% reduction in lending in the US.

Moody's Analytics Chief Economist Mark Zandi reckons tighter credit will lower growth over the rest of this year by 0.3 percentage point, while Michael Feroli, chief US economist for JPMorgan Chase & Co., says the toll could be a half to a full percentage point over this year and next.

JPMorgan Chief Market Strategist Marko Kolanovic says the banking stress has increased the chances of a "Minsky moment"—a sudden crash of markets and economies that have grown accustomed to cheap money. At one point in March, the Bloomberg US Financial Conditions Index tightened to levels not seen since May 2020.

PHOTO ILLUSTRATION BY 731; PHOTOS: ALAMY, DREAMSTIME

A more benign take is that market volatility will dissipate as investors realize this isn't a replay of 2008. Banks are well-capitalized, bad loan volumes appear contained and regulators have responded early, says Rob Subbaraman, chief economist at Nomura Holdings Inc. "Bank loan growth is very likely to slow, but I think it's a bit too early to conclude that it is going to collapse," he says.

Indeed, Goldman's analysis found that failures tend to spread only if bank fundamentals are weak, banks are highly interdependent or an initial failure exposes systemic risks. Furthermore, a rapid tightening is exactly what policymakers have been seeking to slow inflation. Torsten Slok, Apollo Global Management's chief economist, estimates the banking shock will raise the cost of borrowing just as much as a 1.5-percentage-point increase in the Fed's target interest rate.

In a report published on March 27, Jan Hatzius, Goldman's chief economist, said his team's baseline assumption is that reduced credit availability will prove to be "a headwind that helps the Fed keep growth below potential" rather than "a hurricane that pushes the economy into recession."

There are signs that lending was tightening before the banking drama and will only get tighter. Bloomberg's bankruptcy tracker shows 52 large company filings in the year through March 27, the most in a comparable period since 2009.

Even if banks are still willing to lend, consumers may not want to borrow. A Citigroup Inc. analysis of credit card data that covered the period when banks were dominating the news showed the biggest decline in consumer spending since the pandemic.

In a note published on March 23, economists and analysts at the Institute of International Finance pointed out that the US economy isn't nearly as dependent as others on bank lending because US capital markets are broad and diversified, and therefore "a recession is far from a foregone conclusion." Nonetheless, the authors noted the lesson from other countries is that variations in what economists call the credit impulse, a measure of changes in the pace of credit growth, is closely associated with ups and downs in economic output.

"Policymakers need to take developments in the credit space extremely seriously—which they are—and to be proactive when it comes to keeping credit flowing," they concluded. —*Enda Curran*

THE BOTTOM LINE Economists are scouring available data for signs of a broad-based credit crunch in response to the recent turmoil in banking, warning it could trigger a downturn.

'We Knew This Was Going To Be a Sacrifice'

● Peru's Indigenous have put their lives and livelihoods on the line in a quest to oust the president

Alejandro Paricahua wants Peru's president to resign. An apparel vendor and the head of the largest merchant group in Juliaca, Paricahua has been helping coordinate a monthslong economic boycott that regularly brings this city of almost 300,000 people in the Puno region to a near-total standstill. The goal: to pressure President Dina Boluarte to hold new elections.

"We knew this was going to be a sacrifice," says Paricahua, standing in a market stall, where he's surrounded by rainbow-hued piles of shirts, jackets and sweaters. "We didn't know this was going to drag out. We didn't know this woman would stubbornly cling to power."

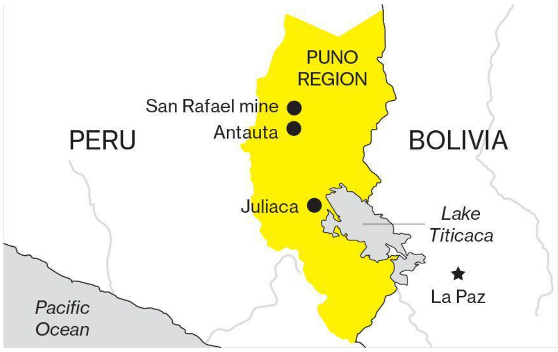
Peru has been roiled by the longest and bloodiest protests in decades, ever since then-President Pedro Castillo attempted to dissolve Congress in December, leading to his arrest and impeachment. Puno, a region of 1.2 million people that borders Bolivia, has seen the worst of the violence, with more deaths than in any other part of Peru.

Castillo, a peasant farmer and former teacher who pledged to nationalize Peru's natural gas reserves and rewrite the country's market-friendly constitution, was elected president by a razor-thin margin in 2021. But he and Boluarte, who ran as vice president, captured 89% of the vote in Puno, whose population is overwhelmingly Indigenous and poor. In the most recent census, just over 90% of Puneños 12 years or older identified themselves as Indigenous, more than ▶

● Share of Peruvians who would like to see the president step down

71%

A Region in Ferment



◀ three times the total for the country as a whole.

Peru's presidency has been a revolving door, with only 6 of 10 chief executives completing their terms since 2000. In a poll published on the eve of Castillo's impeachment, 87% of respondents endorsed the idea of holding new elections for president and Congress. Boluarte, once in office, also pronounced herself in favor, but Peru's legislature has failed to take action to bring the vote forward. A group of leftist lawmakers has introduced a motion to initiate impeachment proceedings against Boluarte, but it's not clear they can muster the necessary votes to get the process started.

A survey showed that 71% of Peruvians would still like to see Boluarte relinquish the presidency before 2026. Yet, after an initial wave of street demonstrations, life has returned to normal across much of the country. Puno is the exception. During a three-day visit in early March, this reporter saw that roadblocks, street protests and strikes were an almost constant affair.

In interviews, dozens of Puneños described a region gutted by violence and bleeding from a self-inflicted economic wound. According to Minsur, the company operating the world's fourth-largest tin mine, losses caused by worker strikes and road closures are running above $100 million.

The revolt has also brought the tourism industry to a total halt, while its effect on agriculture is harder to quantify as the region has also been experiencing a punishing drought. Macroconsult,



◀ Paricahua at his shop in Juliaca

a consulting firm based in Lima, expects Puno's economy to shrink 5% this year while that of the entire country grows 1.9%. The share of Puneños living below the poverty line has skyrocketed from 43% to as much as 80% since the protests started, according to Peru's finance ministry.

The hit to the local economy has been so large that businesses in Juliaca elected in March to dial back boycotts from four days a week to just two—Tuesdays and Wednesdays. "We can't keep going. This protest is already a failure," says one vendor, who requested anonymity because he doesn't want to be branded a dissident.

Protest fatigue is also setting in at Antauta, a 2½-hour drive north of Juliaca. The town sits at such a high elevation—its center stands 4,150 meters (13,600 feet) above sea level—that it cannot sustain many crops or even alpacas. Most of Antauta's residents make a living providing accommodations and meals to 4,500 employees of Minsur's San Rafael tin mine.

When Minsur shut down operations on Jan. 12, the move was initially celebrated by protesters. The mood has since shifted. "The company has requested to restart its mining operations, and so have some residents who understandably demand

▼ Residents block a highway in Peru's Puno region on March 7



MARCO GARRO/BLOOMBERG (2)

that they need to keep working," says Roger Mamani, an Antauta native who in 2020 led negotiations with the mine's owners that resulted in a $50 million pledge to fund infrastructure improvements and other activities in the area.

But in early March, Jesús Pilco, an official at Minsur, delivered some unpleasant news at a public forum held in Antauta's main square, which features a modernist city hall sheathed in glass: The company's board of directors had decided to pause the investments until the mine was fully up and running again. (It was operating at 10% to 15% capacity in early March, according to a company source who requested anonymity, citing the volatile situation in the area.)

Although Minsur's management initially said the closure–only the third in the mine's 46-year history–was a show of solidarity with protesters, the source said that, in reality, the decision was motivated in large part by "threats" from members of nearby communities who "went up to the mine to demand that we stop operations."

"The fear they have is that people are going to show up to burn down their mining unit," says Edgar Puma, the mayor of Antauta, who's held several meetings with the company.

The airport in Juliaca was the site of violent clashes between protesters and police on Jan. 9 that left 18 people dead and 204 injured. Elisban Blas Mamani says he didn't see who fired the shot that's left him bed-bound and unable to work, but he describes being roughed up by police officers. "They hit me, they kicked me, they mistreated me in every way. They even stepped on me," he says, speaking from the home he shares with his pregnant wife and two children.

Nationwide, nobody has been arrested or charged in any of the more than 60 deaths that have resulted from protests, save for one case in which a policeman perished. Boluarte has further stoked tensions in Puno by saying the unrest is the work of "radical" elements who are involved in criminal activity such as illegal mining and smuggling. "To those who are protesting daily, who is financing you?" she asked in a nationally televised address in January. "Because you guys are not working, so what money are you bringing back to your homes?"

The hostility against Boluarte has found expression in chants like this one: "*Dina asesina, el pueblo te repudia*" ("Dina the assassin, the people repudiate you"). Another asks, "How many deaths will it take for you to quit?"

Groups of protesters blocking roads sometimes require drivers to step out of their vehicles and join them in chanting for a few minutes as a condition for being waved through.

Paricahua, the clothing salesman in Juliaca, acknowledges that the economic boycott is "unsustainable," then adds: "But we also can't ignore what's going on."

Roberta Cecenardo, who lives next to the big tin mine, says that she, for one, isn't done fighting: "While Dina and the lawmakers don't quit, there will be no peace. There will be no peace, and Puno never gets tired." —*Marcelo Rochabrun*

THE BOTTOM LINE Poverty in Peru's Indigenous heartland has shot up to 80% as road blockades and boycotts hobble mining and tourism industries.

China's Stealth Bailouts

● A study sheds light on how China turned itself into a lender of last resort for debt-laden nations

Over the course of a generation China has become the world's biggest sovereign lender to developing economies as part of a push for business and influence that mirrors the 20th century spread of US economic power. Now comes the next chapter: With a growing list of poor countries facing debt problems, China is drawing on its enormous central bank reserves to establish itself as a source of emergency funds to bail out some of the very nations it spent years lending to.

In a new study that offers a rare look at how the People's Bank of China (PBOC) wields its $3.3 trillion in reserves, a group of leading economists document at least $240 billion in assistance that Beijing has funneled into 22 countries including Argentina, Nigeria and Pakistan since 2000. To the authors it amounts to "a new global system for cross-border rescue lending to countries in debt distress" that rivals the US-led frameworks in place since the 1940s. It's also turning the PBOC into an influential lender of last resort at a time of growing rivalry between the US and China.

"Bolstering central bank reserves frees up money to go elsewhere in a crisis"

China deployed more than three-quarters of the money, or $185 billion, from 2016 to 2021, ▶

◀ a period during which several emerging and developing economies grappled with financing difficulties made worse by the pandemic. While exact comparisons are difficult, that $185 billion surpassed the $144 billion disbursed by the International Monetary Fund over the same period. (The IMF also issued $650 billion in a special pandemic increase in quotas in August 2021 that countries could pull from to bolster reserves.)

The bulk of the aid was made available through PBOC foreign currency swap lines, which are essentially low-interest-rate loans between central banks. Over the past two decades, the PBOC has negotiated swap agreements with 40 countries and trade blocs worth about $580 billion, as part of a drive to spur international use of China's currency, the renminbi, for trade and other commercial purposes.

During that time, the study documents, 22 countries have drawn down at least $170 billion on those credit lines. The remaining $70 billion has come via loans to governments from Chinese state-owned banks and companies. The increase in Chinese lending via its central bank comes in the wake of President Xi Jinping's "Belt and Road" initiative (BRI), a soft-power push that's funded $900 billion in infrastructure and other projects around the world. Critics charge the BRI contributed to debt difficulties in countries such as Pakistan and Sri Lanka.

Currency swap agreements have become a feature of crisis responses since the 2007-08 global financial meltdown. The US Federal Reserve and four other central banks relied on swap lines in March as part of their efforts to help contain the fallout from the collapse of Silicon Valley Bank. The short-term loans are typically repaid within days.

What's different with China's currency swap agreements, the study, published on March 27, argues, is that developing countries are tapping PBOC lines for reasons other than shoring up liquidity. They're using them to boost their central banks' foreign reserves in times of crisis to avoid credit rating downgrades and attacks on their currencies. They're also tapping them to help fund government budgets. This has the effect of turning China's central bank into a source of emergency funds, or bridge loans, traditionally the remit of the IMF.

Officials at the PBOC declined to comment for this story. Speaking at an online forum on March 27, Jin Zhongxia, head of the international department at the PBOC, called Chinese lending "only a small part of a big picture" and implied the debt problems in the developing world had been aggravated by rich-world central banks' monetary tightening campaigns.

The study, by economists at the World Bank, William & Mary's AidData research project, Harvard University and Germany's Kiel Institute for the World Economy, arrives at an important time. While much of the attention on the US and China's rising tensions is focused on trade, technology and industrial policy, debt is another friction point.

China has traditionally declined to take part in debt negotiations involving a group of creditor nations or the IMF, preferring to cut its own deals. And instead of forgiving debt, Beijing usually gives borrowers more time to pay off loans.

Carmen Reinhart, a former World Bank chief economist and one of the study's authors, is a critic of China's approach. "This is the onset of what will be a very long, protracted period of debt difficulties for these countries," she says. "And the role China plays at this stage is kicking the can down the road."

The study found a correlation between the drawing down of PBOC swap lines by countries and their level of indebtedness to China. Reinhart, who teaches at Harvard, says her suspicion is that Beijing is indirectly bailing out Chinese lenders whose loans for Belt and Road projects have gone sour.

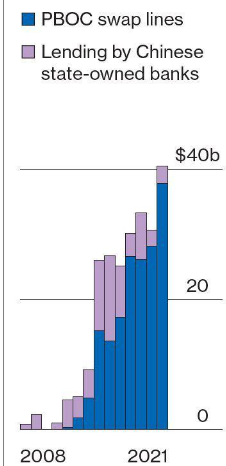
She says the report's authors can't prove that that's what's happening. But "money is fungible," Reinhart says. "Whether or not PBOC funds go directly to paying Chinese lenders matters little. Bolstering central bank reserves frees up money to go elsewhere in a crisis." The Federal Reserve did something similar in the 1980s to protect US banks that got into trouble lending to Latin American countries, she says.

Officials in Washington continue to warn that Beijing has lured many poor countries into a debt trap. "China has come in and created a lot of debt," White House adviser Amos Hochstein said in a talk at a Washington think tank on March 22. And now, Hochstein said, the IMF and other countries are being asked to bail out countries indebted to China.

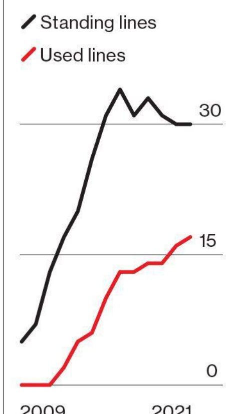
What's clear is that China is rapidly playing a greater role in the calculations crisis-afflicted countries must make and offering an alternative to a system that's guided the world's response to economic emergencies for decades. That matters as the two largest economies increasingly battle for influence in a global financial and monetary system that, as the study's authors write, is "becoming more multipolar, less institutionalized, and less transparent." *—Shawn Donnan and Tom Hancock, with Daniel Flatley and Eric Martin*

THE BOTTOM LINE In a new paper, a group of leading economists documents at least $240 billion in assistance that Beijing has funneled into 22 countries, an amount that rivals IMF efforts.

▼ China's cross-border rescue lending



▼ Bilateral swap line agreements signed by the PBOC



DATA: "CHINA AS AN INTERNATIONAL LENDER OF LAST RESORT," 2023 ANNUAL MEETING OF THE AMERICAN ECONOMIC ASSOCIATION



“Early detection gave us time to adapt together, as a family.”

If you’re noticing changes, it could be Alzheimer’s. Talk about visiting a doctor together.

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Small Business

Starting a Company? Better Sign Up for Video Coaching

Entrepreneurs are turning to social media courses to shine online

Among the many items on the to-do lists of people founding new ventures is writing an "about" section for their website—the goals of the organization sprinkled with personal tidbits about the leaders. When Maria Berglund launched In Kind Boxes in Portland, Oregon, in 2019, she added a brief explanation of her inspiration for the nonprofit: the scant postpartum support she got from medical providers after giving birth, along with childhood memories of the community aid her single mother had received. "If people were that curious to dig into the website," she says, "I was happy to share."

For more than a year, the page constituted the extent of Berglund's founder story, as she was more focused on running the nonprofit, which sells gift boxes for new parents, with each sale funding the donation of a similar box to a family in need. As the venture matured, Berglund devoted more effort to social media, but she had no intention of sharing more of her story, and certainly not via video. "I didn't think anyone cared," she says. "And I had zero experience. It was terrifying."

Then, three years ago, after she stumbled on the Instagram feed of a storytelling coach, Berglund pondered whether she might be able to overcome her hangups about video. She gave the idea a try and soon saw an improvement in social media engagement, spurring her to sign up for $2,500 in sessions with coach Patrice Poltzer. Berglund now creates clips several times a week and credits her video strategy with helping In Kind Boxes get press coverage, leading to a 30% increase in donations last year. "If you can master storytelling, you unlock so many opportunities," Poltzer says.

Poltzer is part of a growing group of consultants helping founders craft more compelling stories on social media. A quick search of social media platforms yields dozens of storytelling coaches aiming to serve—and profit from—soaring numbers of new businesses. While helping entrepreneurs hone their message isn't new, video is growing in importance. And people founding businesses typically "come from backgrounds where storytelling wasn't what they were trained to do," says Matt Abrahams, a lecturer in organizational behavior at the Stanford Graduate School of Business.

Many storytelling coaches—Poltzer included—are former journalists who have found a second career. "It's a natural transition," says Virginia Kerr, a video marketing strategist who draws on her decades of experience in broadcast journalism, including a stint as anchor of a St. Louis morning show. Kerr started sharing video tips in 2019 for fun, but as her follower counts started to tick up, she saw a business opportunity. She has since amassed 1.1 million-plus followers across Instagram, TikTok and YouTube. Over the past two years, she says, she's earned more than $500,000 providing services ranging from one-on-one sessions to a self-paced online course that costs $797.

In late 2021, Hafsa Saleem enrolled in Kerr's course after sifting through dozens of

April 3, 2023

Edited by Rebecca Penty and David Rocks



Saleem creates multiple videos a week and frequently gets personal

video coaches she found on social media. She sought to promote her business, Homestead Hafsa, which offers tips on raising animals and living off the land, and she liked Kerr's approach to storytelling and her insistence that founders narrate or even directly address viewers in clips. Although Saleem had extensive public-speaking experience, her videos for her 10,000 Instagram followers relied heavily on songs or captions. "I was afraid of using my own voice on Instagram Reels because I felt like I wouldn't be fun," she says.

After Saleem changed her video strategy, she doubled her Instagram follower count in one month, and today she has more than 90,000. She creates multiple videos each week from her farm in the Shenandoah Valley of Virginia, often with a chicken or other animal in the frame, and she frequently gets personal, talking about her mother's death from cancer and her own desire to know where her food comes from, which fueled her interest in homesteading. She says growing numbers of followers and likes on her videos have boosted her profile as an influencer and lifted sales of an online course about raising chickens.

Well-crafted stories can create a sense of connection and build trust, which is important because of the high rate of failure among startups, says Donna Levin, head of the entrepreneurial leadership program at Babson College. And she says a story doesn't need to be dramatic to have an impact. What's most important is for founders to talk about their inspirations, describing problems they've faced and how their offerings can serve as a solution. "It just needs to resonate with your target audience," Levin says. "People really want to understand where a product or service is coming from and how they can form a connection with that business."
—*Anna-Louise Jackson*

THE BOTTOM LINE Small-business owners increasingly connect with consumers on Instagram, YouTube and TikTok. A new breed of business consultants has emerged to help them out.

COURTESY HOMESTEAD HAFSA

A First-Aid Kit for Drug Overdoses

A West Virginia company makes boxes that empower bystanders to respond



Onebox kits include instructions for the use of naloxone and room for the drug

When a person experiences an opioid overdose, breathing slows dramatically, and the brain is starved of oxygen, leading to potential brain damage, cardiac arrest and death. It's critical that someone in the throes of such an episode receives emergency medical attention, including at least one dose of naloxone, which restores respiratory function.

The Food and Drug Administration approved the first naloxone nasal spray, Emergent Biosolutions Inc.'s Narcan, in 2015. On March 29, the regulator authorized the treatment for over-the-counter use, the first naloxone product to be made available without a prescription. As the treatments become more widely available, programs to train people how to use them have sprung up.

Onebox LLC is taking that a step further: It makes a first-aid kit for opioid overdoses that empowers any bystander to respond quickly. Each kit contains personal-protective equipment, a card with instructions on how to administer naloxone nasal spray and a video interface with a 60-second autoplay guide for giving the opioid overdose treatment. There's a space for the owner of the box to include naloxone, which is generally available to those who need it via state approvals and funding.

Video production specialist Joe Murphy founded Onebox in June to address the high death toll from overdoses in his native Huntington, West Virginia. "This is a foolproof box that can give anyone the confidence they need to go from bystander to lifesaver," says Murphy, the owner and chief executive officer of Onebox.

More than 10,000 Onebox kits have been distributed across the country, and demand continues to rise as college campuses, restaurants and bars look for ways to prevent overdose deaths, says Susan Bissett, president of the West Virginia Drug Intervention Institute, a nonprofit aimed at reducing overdose deaths. The institute purchases the kits from Onebox and then sells them to customers, including individuals, businesses and educational institutions, for $250 apiece. The institute doesn't supply naloxone because it's not a drug distributor.

As illicit drugs are increasingly mixed with fentanyl, "the need to respond to overdose emergencies is likely to increase," Bissett says. Fentanyl, a synthetic opioid, is the deadliest drug threat the US has ever faced, according to the US Drug Enforcement Administration.

Driven by surges in drug use during the pandemic, almost 81,000 Americans died from opioid overdoses in 2021, and fentanyl played a role in 88% of those deaths. The 2021 death toll was almost twice that of 2016. Over the past year, emergency medical responders in the US used naloxone more than 210,000 times to address nonfatal opioid overdoses, according to the National EMS Information System.

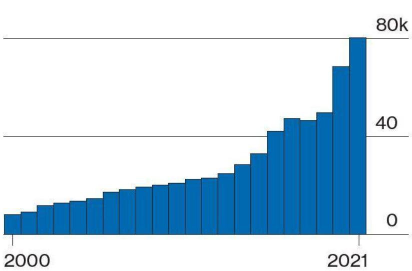
When a Onebox is opened and the instruction card is pulled down, the system starts playing a video of Jan Rader, a former Huntington fire chief who trained first responders in the Huntington fire department and is now the director of a city drug policy council. In an interview, she says prior training doesn't ensure people will act in a crisis. "You could freeze," she says, "so having a video to rely on while you're actually working to save somebody's life is key."

After growing up in Huntington, Murphy moved to New York to build a career as a director, producer and artist. He moved back to Huntington around 2006, when the community started to be flooded with prescription painkillers. West Virginia still has the highest drug overdose death rate in the country: about 81 per 100,000 people in 2020, followed by Kentucky, with about 49.

Advisers are helping Murphy manage the growth of Onebox, he says. "All I came up with was a box," he says. "I don't want someone to not know what to do. I want to take away one barrier to saving a life."

—Tanaz Meghjani

US opioid overdose deaths



DATA: CENTERS FOR DISEASE CONTROL AND PREVENTION

THE BOTTOM LINE Onebox kits offer video instructions for anyone responding to an opioid overdose, providing real-time assistance.

COURTESY ONEBOX

Loans

The Best Approach for Repayment

Almost 4 million small businesses in the US benefited from Economic Injury Disaster Loans during the pandemic, and now it's time to start paying them off. The first payments are coming due on balances totaling $378 billion—plus all the interest accrued over the last 30 months. More than 673,000 loans were issued in New York and Texas alone. Some of the payments will be hefty. —*Arianne Cohen*

A reminder on the basics of the program:

A fixed-rate, long-term, nonforgivable loan issued directly by the US Small Business Administration (SBA)

Term:

30 years

Interest rates:

3.75%

for small businesses

2.75%

for nonprofits

Average loan amount:

$100k

(That's more than $450/month)

Max loan amount:

$2m

(That's more than $9,000/month)

Expert advice on how to formulate a repayment strategy

☐ Evaluate cash needs

This is a long loan and an unusual one: It provided fast operating capital with a payoff schedule that stretches until about 2050. Consider how much cash you will need in the coming years, especially if the economy goes into recession.

"In this environment, perhaps it might be better to keep cash balances on the books," says Brian Hughes, a financial adviser at Jackson, Florida-based River City Wealth Management.

If you have funds to partially or fully pay back the loan, put that money in a separate account with an interest rate of at least 4% and set up automatic monthly debits for the loan payments, Hughes suggests. "That keeps cash available to use if you need it," he says.

You can also toss in an additional annual payment, which can help you pay off the loan a few years early.

If you go this route, set yourself an annual reminder to make sure your bank account's interest rate does not fall below the 3.75% rate on your loan.

☐ Consider priorities

How old will you be in 2050? Do you want to be dragging along a loan until then? "Some people hate having debt and would rather pay it down than have money in the bank," says Dana Levit, principal adviser at Paragon Financial Advisors in Newton, Massachusetts.

If you would rather have one less debt to keep track of, that's a valid reason to pay it off. "If people want the psychology of being done sooner, absolutely," Levit says.

☐ Know there is help

If the monthly loan payments will tip your books sideways, be aware of the Hardship Accommodation Plan available through the SBA. It's a temporary reprieve of six months of reduced payments while interest continues to accrue.

A second option might be to visit your local SBA office for financial counseling, which could help you find other ways to access capital or restructure debt.

☐ Pay on time

Many loans were granted three years ago, and the first repayment dates were repeatedly delayed. Some loan holders say they haven't heard from the SBA in a while. This doesn't mean that payments aren't due. Log in to the SBA loan repayment portal to check the date of your first payment.



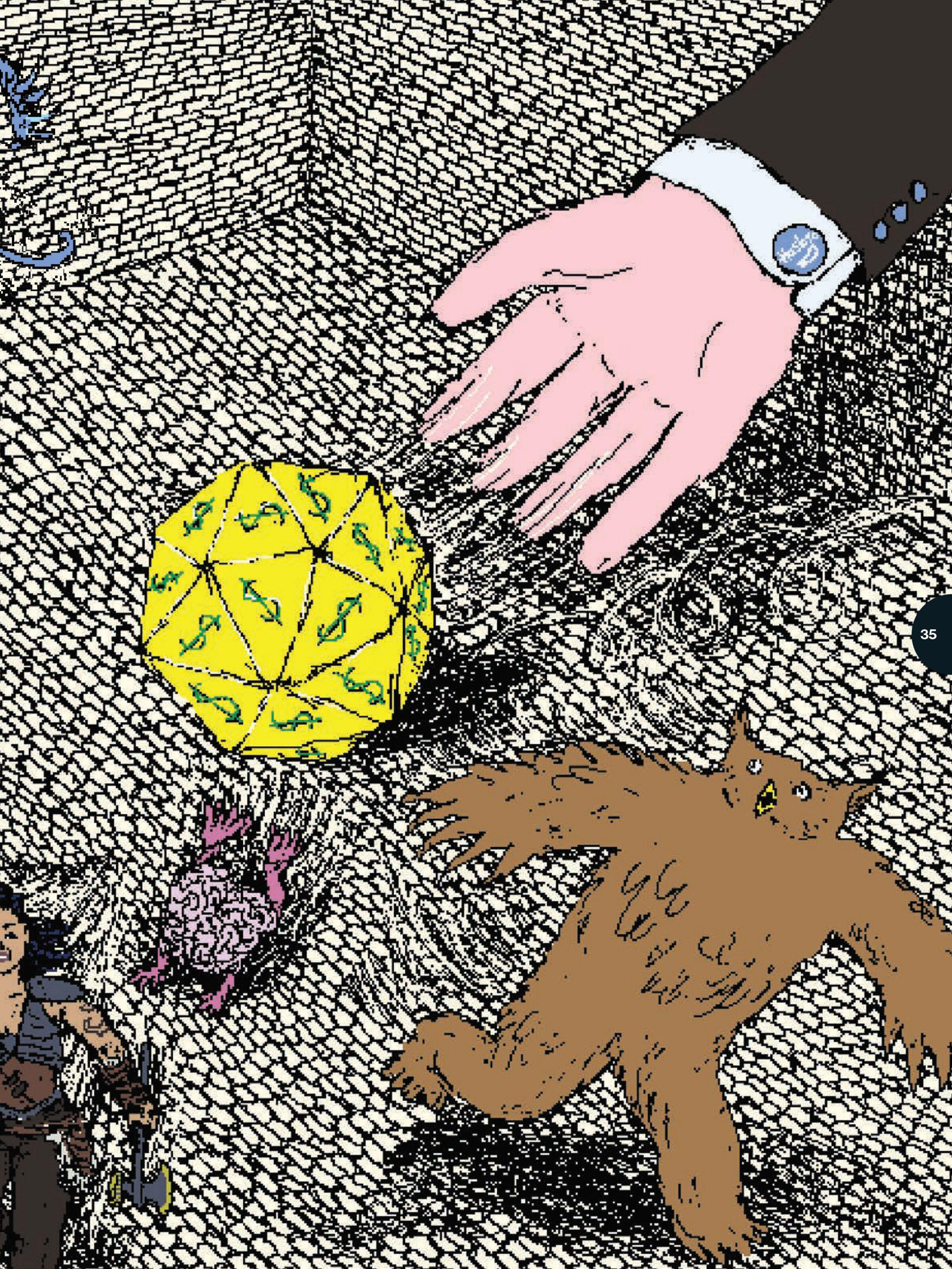
Breaking The Curse

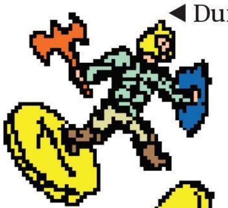
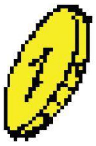
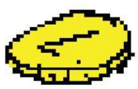
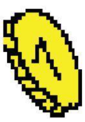
With *Honor Among Thieves* hitting theaters, Hasbro tries to overcome 50 years of Dungeons & Dragons business disasters without enraging its fan base

By Felix Gillette and Thomas Buckley
Illustrations by Martin Lacko

Past the Mr. Potato Head statuary in the parking lot, past the phalanx of vintage GI Joe soldiers lining the hallway, past the old-timey Monopoly board hanging on the wall, Chris Cocks stops in front of a whiteboard. "Let me just erase these corporate secrets," says the chief executive officer of Hasbro Inc. Two reporters visiting the toymaker's headquarters in Pawtucket, Rhode Island, corkscrew their necks trying to decode what appears to be company financials. Then Cocks raises his hand and wipes it all away.

If only he could make some recent entries in Hasbro's ledger disappear as easily. In January, following a bout of weak holiday sales, the company announced it would cut 15% of its workforce. By March, its shares were down by more than 40% from the year before. It has suggested to anxious investors that brighter days are coming as it doubles down on one of the most seemingly valuable franchises in gaming, ▶



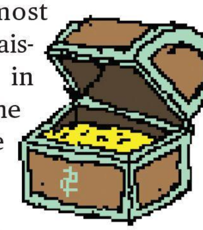
◀ Dungeons & Dragons, the classic tabletop role-playing game, or RPG. “It’s a good time to be a fan,” Cocks says.

On March 31, Hasbro will kick off a D&D blitz, starting with the release of *Dungeons & Dragons: Honor Among Thieves*. It’s a big-budget, CGI-laden spectacle co-produced by Paramount Pictures and Hasbro’s in-house EOne Studio, starring Chris Pine and Michelle Rodriguez as a couple of wisecracking, world-saving thieves. In August, *Baldur’s Gate III*, the latest sequel in a popular series of video games based on D&D, is set to go on sale, followed by the release of a live-action D&D TV series being developed for Paramount+. And sometime next year, Hasbro is expected to unveil One D&D, the next iteration of the tabletop game.



● Cocks at home in Providence

“Any new addition, part
be dumbed down, is goi



D&D, the granddaddy of RPGs at almost 50 years old, has been enjoying a cultural renaissance. Thanks in part to its starring role in Netflix’s hit series *Stranger Things*—perhaps the biggest coup in non-product placement—the game has minted a new generation of dice-slinging fans, along with D&D-themed podcasts, Twitch shows and D&D influencers on YouTube and TikTok. Cocks, himself an avid D&D player, says that the traditional version of the game is played by millions of people and that “the bigger opportunity for us” will come from product extensions and new audiences.

Which is a very gentle way of saying that Hasbro needs to finally make some money from the revered franchise. Cynthia Williams, president of Wizards of the Coast and Digital Gaming, the Hasbro division that operates D&D, told investors at an event in December that “D&D has never been more popular...but the brand is undermonetized.”

Hasbro is now trying to replicate with D&D what it did with its geeky corporate sibling, Magic: The Gathering. It built the fantasy card game into its first billion-dollar brand, thanks in part to an aggressive expansion into mobile gaming, media licensing agreements and ancillary products. Today, Hasbro makes about $4 billion a year from toys, $1 billion from entertainment and $1.3 billion from its Wizards of the Coast and Digital Gaming division. The company doesn’t break out D&D-specific numbers for investors, but Arpine Kocharyan, an analyst at UBS, has estimated that D&D generates more than $150 million in annual sales. In October 2022, the toy company set a goal of increasing its overall profit by 50% over the next three years, noting that D&D would be “a major growth priority.”

Judging by the game’s history, supersizing D&D’s coffers won’t be a simple quest. The brand has often struggled to live up to its potential, leaving in its wake decades of infighting, litigation and squandered opportunities. And sure enough, just as Hasbro was gearing up to mobilize its zealous fan base for the feature film, it hit yet another self-inflicted snag. For more than 20 years, Wizards had maintained an explicitly laissez-faire system in which anyone was free to use D&D’s basic game mechanics and trappings to create supplementary books, spinoff games and other products catering to fans. In late 2022, though, Hasbro began approaching tabletop gaming companies with a new, more restrictive licensing contract that would seemingly end D&D’s open-source era and replace it with one controlled more tightly by the company.

When the contract leaked online, angry fans began circulating petitions chastising Hasbro for its perceived avarice and threatening to boycott various D&D products, including

COCKS: PHOTOGRAPH BY TONY LUONG FOR BLOOMBERG BUSINESSWEEK. POSTER: PARAMOUNT

icularly if it's perceived to ng to burn up the wires"

the forthcoming movie. On social media, they slammed promotions for *Honor Among Thieves*. With the risk to its big Hollywood play mounting, Hasbro apologized and backtracked, temporarily defusing the controversy.

But for those who've managed the business of D&D in the past, the great licensing war of 2023 was a reminder of how difficult it can be to get its fans to go along with change. Lorraine Williams, who led D&D's original parent company, TSR Inc., for a decade between the 1980s and '90s, describes its players as voracious, intellectually driven readers "with unusually long attention spans." They also tend to be instinctively hostile toward anything reeking of commercialization. "I say this with all due reverence and tons of respect: There's a certain snobbishness among D&D players, because they are so bright," she says. "Any new addition, particularly if it's perceived to be dumbed down, is going to burn up the wires."

D&D was invented in 1974 by a pair of Midwestern gaming enthusiasts, Gary Gygax and David Arneson. It emerged from two evolutionarily convergent groups: hobbyists who collected miniature war figures such as soldiers and tanks, and writers who conjured up sets of rules for war games that people could play using dice to guide their Lilliputian armies. D&D's creators added a fantasy spin and shifted the focus from battalions and brigades to the individual.

Players each create a character from a particular race, such as elves or dwarves, and a vocational class, such as barbarians or clerics. They and their friends then steer their characters through various group missions, fighting monsters and overcoming obstacles. Characters gain power by accumulating experience and wealth, carrying it over from one session to the next. In every pod of players, one managerially inclined type serves as the dungeon master, organizing the challenges and transforming the game into a richly imaginative group adventure. The star of D&D isn't a particular hero or villain but rather the elaborate set of rules laid out in three dense hardcover books that can each retail for around $50: *Player's Handbook*, *Monster Manual* and *Dungeon Master's Guide*. The *Player's Handbook* alone has more than 300 pages of directives, covering virtually every scenario imaginable, whether it's waging combat, casting spells or filing lifestyle expenses.

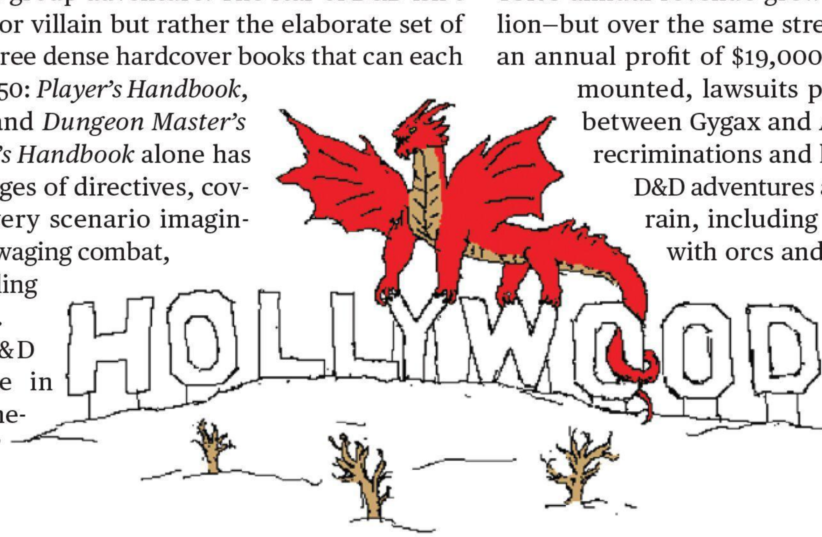
Typically, D&D gatherings come in two flavors. In "theater of the mind" sessions, the dungeon master describes all the action without much in the way of physical props. In "tactical combat," objects such as maps, terrains and minifigurines help players keep track of the action. Both styles rely heavily on dice—including a 20-sided die, a magnificently contrived vortex of chance and the reigning icon of D&D culture—to determine outcomes. Both also rely on supplemental adventure modules, slim books with intriguing titles (*Tomb of Annihilation*, *Ghosts of Saltmarsh*), that lay out a specific set of challenging biomes with monsters that the players can attempt to navigate under the dungeon master's guidance.

When D&D arrived, many in the war-gaming community—adults often hailing from military backgrounds—decried the fantasy elements of D&D as child's play. But by the late 1970s, it had become a mainstream hit. As the game's popularity soared, TSR, the company Gygax had started in Lake Geneva, Wisconsin, seemed ready to soar with it. But then TSR embarked on an ill-advised spending spree. To diversify revenue, it acquired a needlepoint shop, hoping fans would embrace D&D-themed knitting kits. (They did not.) To improve community relations, it funded an effort to salvage a sunken ship discovered at the bottom of Geneva Lake. (Parts of the *Lucius Newberry* were successfully recovered.) And in a half-baked marketing stunt, the company sponsored the US Olympic bobsled team. Between 1976 and 1984, according to the book *Game Wizards* by Jon Peterson, TSR's annual revenue grew from $300,000 to $29.6 million—but over the same stretch, the company went from an annual profit of $19,000 to losses of $750,000. Debts mounted, lawsuits proliferated and a feud raged between Gygax and Arneson, resulting in years of recriminations and litigation.

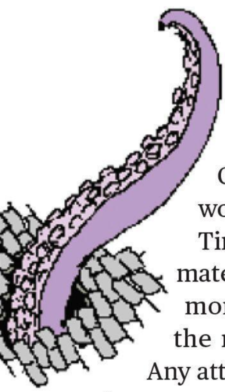


● The film premiered on March 10 at South by Southwest

D&D adventures are often set in treacherous terrain, including shadowy catacombs teeming with orcs and scruffy archipelagos overrun with ghost pirates. But arguably no milieu would prove more frightful for TSR's executives than the sunkissed hills of Hollywood. In the early 1980s, ▶



"They could visualize the potential, but they were terrified of it"



◀ Gygax, freshly divorced and antsy for a new revenue source, decamped from Wisconsin to Los Angeles. There he racked up sizable bills for the company, renting a sprawling mansion, throwing decadent soirees and retaining the Oscar-winning screenwriter James Goldman to work on a script for an R-rated D&D movie.

Tinseltown riches proved elusive. In 1983 an animated *D&D* cartoon series began airing on Saturday mornings, but it was bludgeoned by *The Smurfs* in the ratings and was canceled after three seasons. Any attempt at gaining a bigger cultural foothold would have to contend with fundamentalist Christian groups, who appeared regularly in local and national media to accuse D&D—with its magic spells, ornate bestiaries and horned deities—of being a plaything of the devil. A family-friendly live-action film would have helped counter these sensationalist accusations, but one failed to materialize throughout the 1980s. So in the early 1990s, TSR sold its movie rights to Courtney Solomon, a 19-year-old Canadian science-fiction fan with big dreams of making a *Star Wars*-like trilogy of films. According to the *Los Angeles Times*, Solomon initially approached the company incognito, posing as an economics student. Somehow—perhaps because roguish bravado is a much-cherished quality in both the D&D universe and Hollywood—Solomon won the confidence of TSR executives.

Over the next several years, some A-list directors, including James Cameron and Francis Ford Coppola, took a look at Solomon's project, but ultimately they all passed. Williams, TSR's CEO at the time, says in retrospect that she should have paid closer attention to Solomon's Hollywood moonshot. "I didn't see it going anywhere, quite frankly," she says.

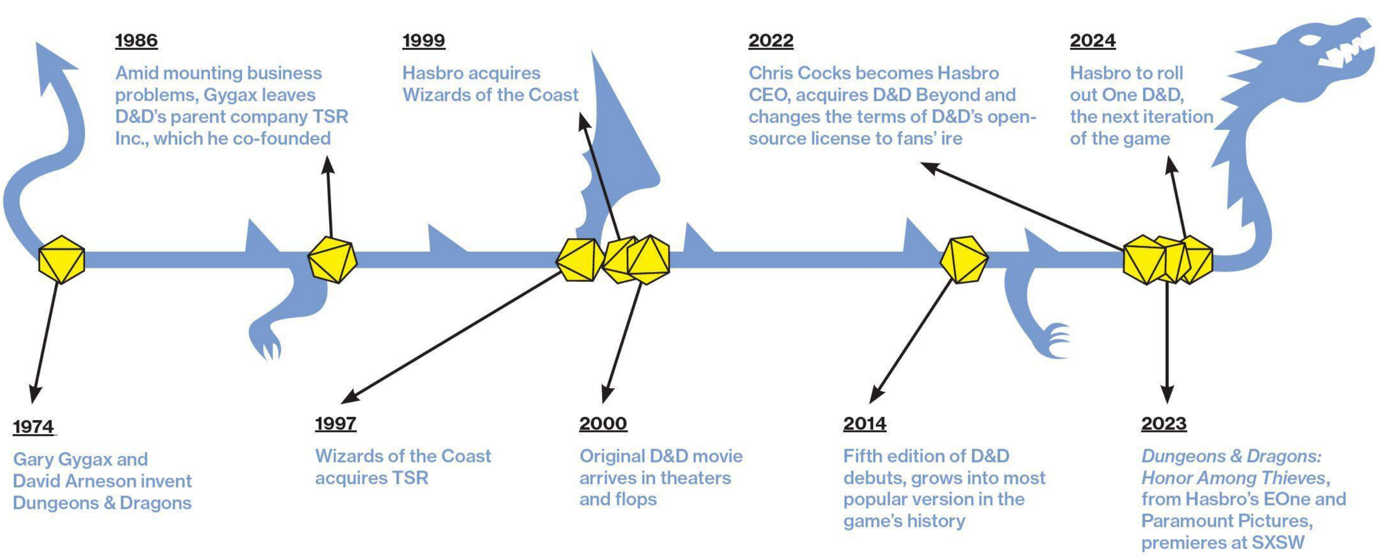
In fairness, she had more pressing issues, such as finding a buyer for TSR. Williams says Hasbro executives began sniffing around during the 1990s, but they seemed alarmed by the prospect of managing a business with a reputation for unruliness. "They could visualize the potential, but they were terrified of it," she recalls. Instead, in 1997, TSR was sold for about $25 million to Wizards of the Coast, a hobby company based outside Seattle that was flush with cash from Magic: The Gathering. Two years later, Hasbro acquired Wizards for $325 million, adding both Magic and D&D to a stable of classics that included Scrabble and Play-Doh, many of which were secured over decades of aggressive acquisitions of rival companies.

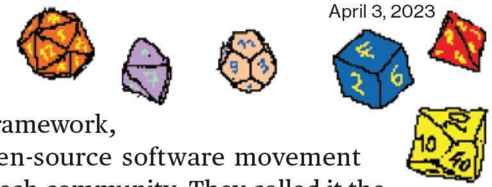


The sale imposed new pressure on Solomon. If he didn't make the movie soon his rights would expire; if he did, he'd control the rights for an extended period. So the twentysomething decided to direct it himself, with backing from Hong Kong import-export magnate Allan Zeman, somehow attracting a cast that included Jeremy Irons, Thora Birch and Marlon Wayans.

When *Dungeons & Dragons* arrived in theaters in 2000, critics knocked its absurd costumes, meandering plot and unintentionally hilarious script. The movie "sinks in a sea of

A Bumpy Quest





cheesy effects, cheap clichés, dispiriting narrative and the one thing an action fantasy can't afford: boredom," noted the *Houston Chronicle*. "Close your eyes and the dialogue sounds like an overwrought junior-high-school play," wrote Roger Ebert. The film grossed less than $35 million worldwide, a missed financial opportunity for Hasbro that would grow even more glaring the next year, when the first *Harry Potter* and *The Lord of the Rings* films arrived in theaters. Each of those earned upwards of $850 million in box office sales and gave rise to two of the decade's most lucrative film franchises.

As much as Hasbro execs might have wished for the embarrassing saga to end there, over the next dozen years, Solomon would have a hand in two additional D&D movies, both of which went direct to basic cable. With a planned fourth, he told an entertainment website in 2013 he was optimistic he'd finally get it right. "Hopefully," he said, "I'll be forgiven by most of the D&Ders, and they'll get the movie that they always wanted to have in the first place." By 2015, after two long years of litigation and an undisclosed settlement, Hasbro finally regained control of D&D's Hollywood fate.

Three years into Chris Cocks's career at Procter & Gamble Co., he found himself researching an osteoporosis medication, listening to a focus group of elderly women discussing bone health. "That kind of prompted me to want to get into video games," he says. He ended up working on the Xbox at Microsoft Corp., eventually spending 15 years in two stints at the company. Then in 2016 he was hired by another Seattle business, becoming president of Wizards, which by then had owned D&D for almost two decades. In many ways it was full circle for Cocks, who'd been indoctrinated into the rich and dank D&D cosmos by a friend's older brother as an elementary schooler in Cincinnati. "One of the wizards had this cool ruby at the end," says Cocks. "I was like, 'Oh, what's that? It's cooler than your *Star Wars* figures.'"

Wizards had taken a much different strategic posture with D&D than its previous owners. As D&D grew far bigger than anything else in the field, Gygax exerted tighter control over everything in its vicinity—from the industry's trade publications to its annual conventions. He was not shy about lashing out verbally or legally against anyone he felt was infringing on his territory. "Quite a few individuals and firms have sought to cash in on a good thing by producing material from, or for, D&D," he once wrote in *Dragon*, the company's official D&D magazine. "For most of these efforts, TSR has only contempt." After Wizards took over and discovered how bad the game's economics were, they decided to focus on its core products—such as the three big hardcover rulebooks—and relax their control over everything else, says Brian Lewis, a lawyer for the company at the time. Third parties could create adventure modules, trade publications, figurines and other related products.

To alleviate the mistrust that had been accumulating for years, Lewis and his colleagues came up with a broad and generous licensing framework, modeled on the open-source software movement popular in Seattle's tech community. They called it the Open Game License, or OGL. Under that framework, anyone could build upon the core mechanics and concepts of D&D to make new games or supplemental products aimed at fans, without worrying about legal blowback from its owners. They wouldn't have to reach out to Wizards for permission; all they needed to do was slap some generic OGL language on their products.

Supporters say that, over time, the new license came to work exactly as intended. Legions of outside creators—from small publishing houses to dudes working in dice-themed sweaters out of Midwestern garages—made all sorts of things that enhanced the D&D experience. "The whole industry absolutely thrived," Lewis says. "It was magnificent." And there wasn't much need for the small businesses to communicate with Wizards execs or vice versa. For the most part, everybody was happy to leave each other alone to pursue their visions of warring orc tribes in misty mountains or whatever.

At times, the radio silence between the adjacent camps led creators to speculate feverishly about the inner workings of the company. In 2007, as Wizards executives were preparing to roll out the fourth edition of D&D, they dropped some tantalizing news: The classic tabletop game was going digital in a big way. They showed a prototype for something called the D&D Game Table, a virtual play space where dungeon masters would be able to lay out maps, arrange 3D minifigs, spawn monsters and unspool scrolls. "It turns the internet into your kitchen table," an executive explained in a promotion.



● Poster from the 2000 D&D movie flop

But when the fourth edition hit the market in 2008, many of the promised digital tools, including the D&D Game Table, were missing. Absent a straightforward explanation about what had happened, fans circulated news reports in online forums about a manager at Wizards who'd murdered his estranged wife and killed himself. In some corners, the tragic event morphed into an explanation for the mysterious digital misfire. For the next several years, Wizards continued to experiment with a two-dimensional virtual gaming table. But in 2012, after beta-testing the feature, ▶



◀ the company finally announced that it would be ending the effort, because "we were unable to generate enough support for the tool to launch a full version to the public."

Overall, however, the hands-off approach seemed to work. In 2014, Wizards released the fifth edition of D&D, which changed the rules of combat and lowered the barriers to entry. By the time Cocks became president of Wizards, the fifth edition was on its way to becoming the most popular version of D&D in its history.

When the pandemic hit in 2020, dungeon masters flocked online, convening their parties using a slew of new digital tools and enhancements created not by Wizards or Hasbro, but by the thriving ecosystem the OGL had seeded. One service, D&D Beyond, which helped players track character evolution and campaign progress, suddenly seemed unstoppable, raking in up to $5.99 a month from each subscriber. "Every kind of growth metric took a sharp incline during the pandemic," says Adam Bradford, the founder of D&D Beyond.

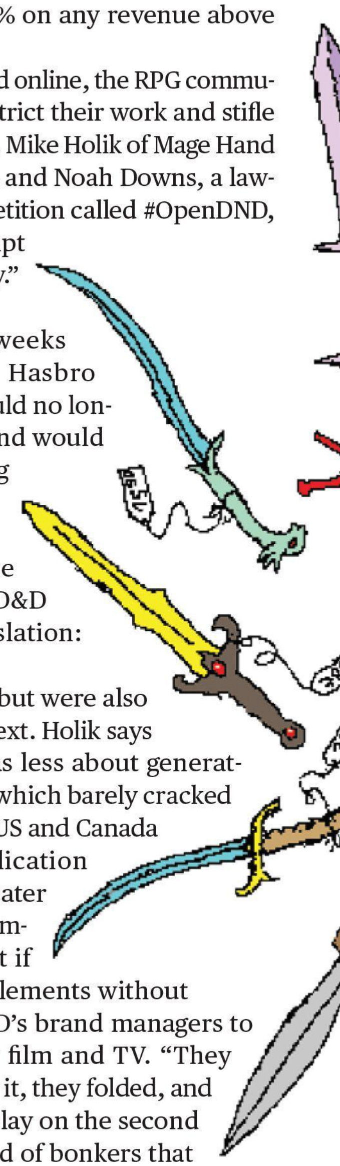
Wizards couldn't fail to notice that it was being left behind by small businesses cashing in on the excitement, especially as it was simultaneously being cited by its parent company as a source of future growth. During the early pandemic, Hasbro's entertainment-driven fortunes took a hit as several movies with its toy tie-ins, including Walt Disney Co.'s *Black Widow* and Paramount's *GI Joe* prequel *Snake Eyes*, were delayed by the coronavirus shutdowns. Hasbro's 2020 annual report noted to investors that Magic and D&D were "at the center of an aggressive digital transformation." For D&D, that was still largely fantasy.

Then, in February 2022, with D&D's popularity soaring and money pouring in from Magic, the company promoted Cocks to CEO following the recent death of longtime Hasbro boss Brian Goldner. The D&D community largely ignored the ascension of one of its own to the top of the corporate empire. Cocks's first big move at the helm: acquiring D&D Beyond for $146.3 million. Hasbro executives said that the acquisition would give it a direct look into the behavior of D&D customers, allowing Wizards to capitalize on the game's increasingly digital future. Almost 15 years after its first major attempt, the world's most famous fantasy game was still trying to crack digital.



Typically, during the runup to a big movie based on a popular franchise, Hollywood studios spend months courting die-hard fans, sending them swag and jetting them off to private screenings. A few months before the release of *Honor Among Thieves*, Hasbro and Paramount inadvertently tested what might happen if, instead of pandering to its most devout geeks, they enraged them.

The great licensing war began in late 2022, when Wizards executives began asking publishers to agree to an updated version of the OGL. The new legal framework would require any publisher with greater than $50,000 in annual sales to report details of their D&D-related dealings to Wizards. Those topping $750,000 would trigger a licensing fee of 20% to 25% on any revenue above that amount.



When copies of the contract leaked online, the RPG community accused Hasbro of trying to restrict their work and stifle innovation. D&D fans were outraged. Mike Holik of Mage Hand Press, an RPG publishing company, and Noah Downs, a lawyer and D&D influencer, started a petition called #OpenDND, decrying the new OGL as an attempt to "dismantle the entire RPG industry." More than 77,000 people signed.

By late January, only a few weeks after the new contract leaked, Hasbro capitulated, announcing that it would no longer be revoking the original OGL and would be moving key parts of the existing fifth edition rule set into an "irrevocable" creative commons licensing agreement. "It's clear from the reaction that we rolled a 1," the D&D staff wrote in a statement. (Translation: They'd failed.)

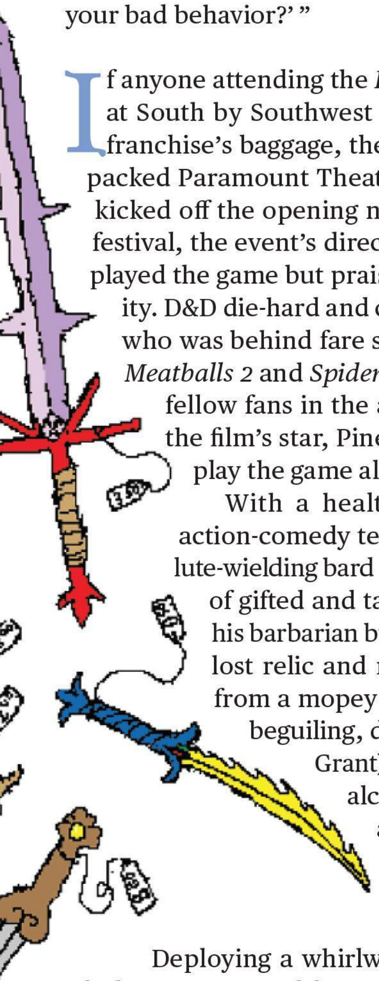
The petitioners claimed victory but were also left questioning what might come next. Holik says he wonders if Hasbro's gambit was less about generating money from the RPG industry—which barely cracked $145 million in retail revenue in the US and Canada in 2021, according to trade publication *ICv2*—and more about exerting greater control over the D&D brand. The company might be afraid, he says, that if outsiders keep creating D&D supplements without oversight, it will be harder for D&D's brand managers to craft an overarching narrative for film and TV. "They were dealt a hand, they tried to play it, they folded, and now we're going to see what they play on the second hand," he says. "Until then, it's kind of bonkers that they gambled that badly."

Although the unrest has largely subsided online, some players are still ticked off. Kevin Donville, an information technology consultant, lyricist, magician and exacting dungeon master from Los Angeles, says the licensing mess upset him not only as a player but also as a Hasbro shareholder. "How tone-deaf can you be to your audience?" he asks. "It's just bad business."

Donville wasn't entirely convinced by the corporate

“It’s kind of bonkers that they gambled that badly”

cleanup job and now finds himself scrutinizing every announcement for hidden clues to Hasbro’s true intentions for the future. He says he might not renew his D&D Beyond subscription when it expires later this year and is considering switching to another tabletop RPG. He’s also on the fence about seeing the film. “The stockholder in me is saying, ‘Oh God, I hope everybody goes to the movie,’ ” he says. “But I’m also like, ‘Well, do I reward your bad behavior?’ ”



If anyone attending the *Honor Among Thieves* premiere at South by Southwest on March 10 was carrying the franchise’s baggage, they left it at the door. Inside the packed Paramount Theatre in Austin, where the movie kicked off the opening night of the annual film and TV festival, the event’s director confessed that she’d never played the game but praised the movie for its accessibility. D&D die-hard and co-director Jonathan Goldstein, who was behind fare such as *Cloudy with a Chance of Meatballs 2* and *Spider-Man: Homecoming*, amped up fellow fans in the audience. In a Q&A afterward, the film’s star, Pine, said he’d recently learned to play the game along with his 82-year-old father.

With a healthy $150 million budget, the action-comedy tells the story of Edgin, a raffish, lute-wielding bard (Pine) who rallies a ragtag group of gifted and talented misfits with the help of his barbarian buddy Holga (Rodriguez) to find a lost relic and rescue his estranged daughter from a mopey red wizard (Daisy Head) and a beguiling, double-crossing poltroon (Hugh Grant). En route they encounter a cavalcade of D&D monsters including an owlbear, a gelatinous cube, a displacer beast, a stone golem, an intellect devourer, a mimic and a plump red dragon. Deploying a whirlwind of classic spells, the band of adventurers travel far and wide, ultimately tapping their inner potential for greatness.

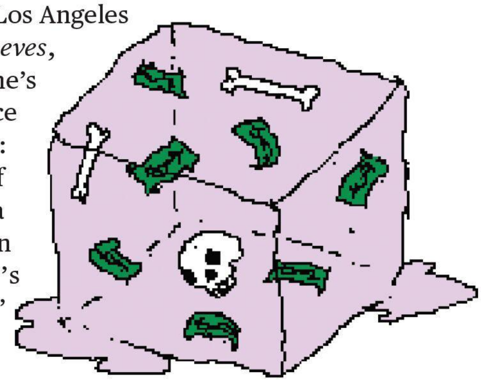
The movie’s success rests not only on whether it produces big numbers this spring, but also on whether it spawns a long-living franchise. Hasbro has already set the industry bar for this dynamic. Since 2007 its six *Transformers* films, based on its humanoid-vehicles toys, have generated almost $5 billion in ticket sales. Cocks, who says he sat in on early cuts and offered feedback on *Honor Among Thieves*, thinks it has similarly broad potential. “It’s a love letter for the fans,” he says. “But it’s still really accessible in a *Guardians of the Galaxy* kind of way.”

The initial reviews out of Austin were promising. “Delightful Nerd Bait,” read the headline from *Vanity Fair*. The hardcore proved to be a tougher audience. A review on RPG site dicebreaker.com called it “a forgettable story in a fantastic, faithful world,” featuring plot and characters that are “disappointingly uninspiring and derivative.” By late March, *Honor Among Thieves* was tracking to open at $21 million to $30 million domestically for a total US run of $52 million to $110 million, according to Box Office Pro. Not exactly peak-Marvel numbers, considering *Guardians of the Galaxy* opened at $94 million domestically.

Of course, the other goal is for the film to entice newcomers to play the game. Around the time of the movie’s arrival, the company will roll out a feature on D&D Beyond’s website to cater to newbies who walk out of the theater and hop online to learn the basics. And for existing fans, sometime in 2024 Hasbro will release One D&D, the latest edition of the game. Along with a new set of rulebooks, it promises an immersive “virtual tabletop” built using the Unreal Engine, the 3D computer graphics tool created by Epic Games Inc., maker of the video game *Fortnite*. Hasbro’s plan is to lean into a model that’s proven lucrative for video games: Give away the game for free, or at a low cost, then upsell players on flashy avatar apparel, loot boxes and other extras.

It’s hard to imagine that D&D fans will readily accept being shaken down for micropayments. Ever since the licensing debacle, the vanguard has gone from ignoring Hasbro’s new CEO to watching him closely. “Chris Cocks really only became a focal point this year after the OGL thing kind of spiraled out of control,” says RPG publisher Holik. “Before then, I don’t think anyone had really heard his name.” Since then, they concede he’s said the right things and avoided any Gygaxian bigfooting, but they don’t plan to let down their guard anytime soon.

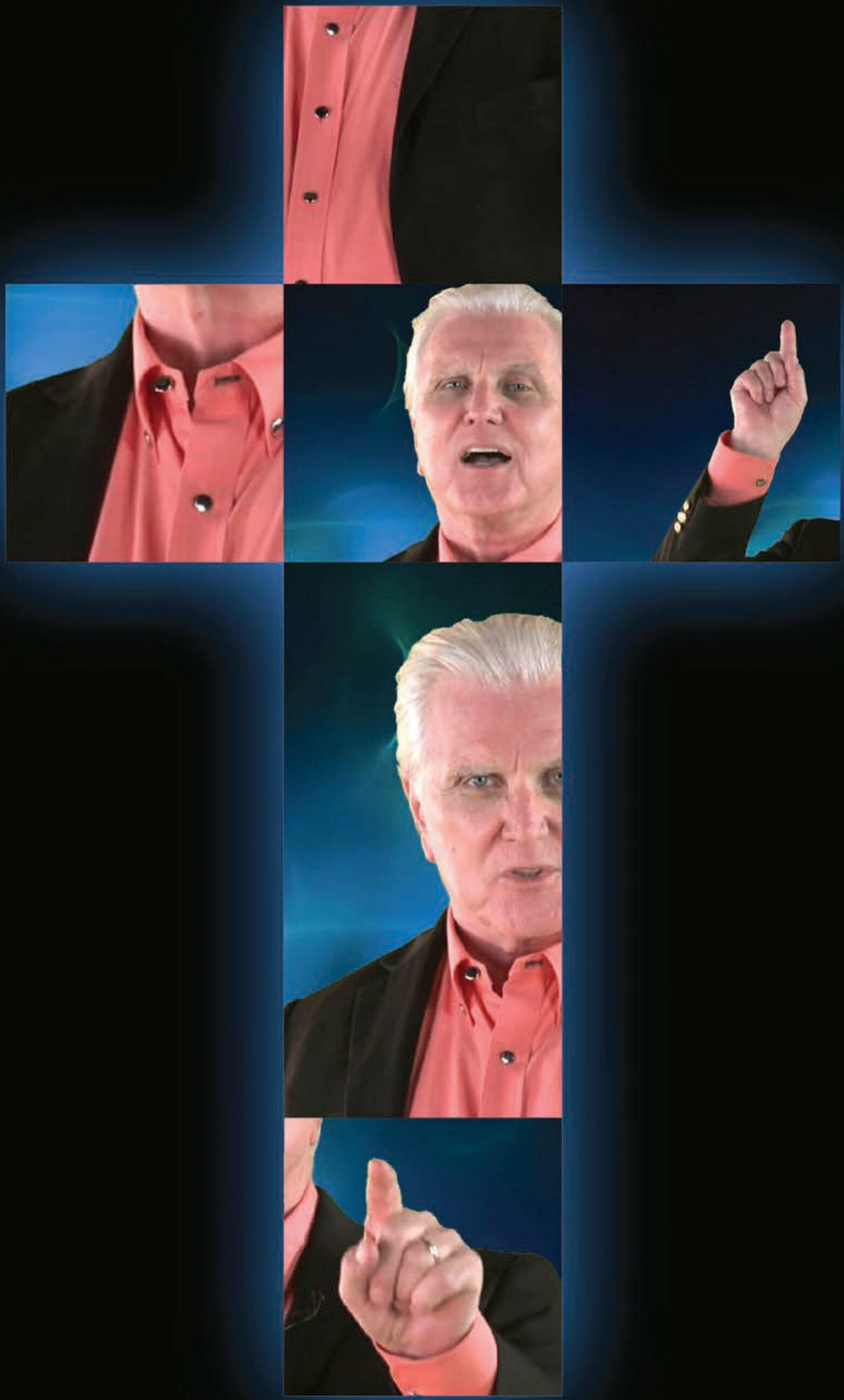
Even so, it remains something of a mystery how an executive could come out of the gate with such a misfire when he’s also a D&D obsessive. Cocks says he still finds time to dungeon master several times each year. His typical setup is centered around a flat-screen TV repurposed as a virtual tabletop and outfitted with a map and miniatures, ranging from cheap commercial stuff to limited-edition collectibles. On the weekend before the red-carpet debut in Los Angeles of *Honor Among Thieves*, he’ll be doing what he’s done on and off since elementary school: gathering a group of his friends around a table for a marathon D&D session. “It’s how I kind of relax,” he says. ■



AN UNGODLY BETRAYAL

DOC GALLAGHER'S $24 MILLION PONZI SCHEME PREYED ON OLDER, RELIGIOUS VICTIMS WHO FOR YEARS DEFENDED HIM AS A MAN OF FAITH

BY CHRIS POMORSKI



Gallagher in a promotional video for his company

LINDA PROVENCE HAS LIVED IN THE SAME NEAT brick ranch house in Bedford, Texas, just outside Fort Worth, for more than 50 years. On the wood-paneled walls of her living room hang black-and-white photos of her mother and father, who abandoned her as an infant, and of a company of Texas Rangers, circa 1887, in wide-brimmed hats with long guns. It's said that Fort Worth is where the West begins, and these images—like the lasso hung decoratively over the couch and the bucking bronco sculpture on the mantle—speak to the ethos of self-reliance that's especially cherished in this part of the state.

Provence was born in rural Paris, Texas. When she was 12, she came to live in Fort Worth with her aunt, a nurse, and uncle, a milkman. She married and raised two children. In 1992, after her husband ran off with a high school sweetheart, Provence was left with a lien on the house and crushing credit card debt. She took jobs at Dillard's, as a cashier, and with Citigroup Inc., in customer service, where she worked for 18 years, paying off the house and her Honda. "I was proud of myself for that," she tells me on a recent visit.

Provence



Around 2008, Provence learned that her aunt and uncle had left her an inheritance of about $350,000—a fortune, to her thinking. She kept some of the money at Wells Fargo, where her relatives had banked, and distributed the rest among investment accounts at Chase Bank, Allstate and Thrivent, a Christian nonprofit. Provence doesn't have expensive tastes. In her spare time she enjoys country-western dancing at a local senior center, and her bucket list includes seeing honky-tonk legend Dwight Yoakam in concert. But her money was growing slowly, and she wanted to help her children and grandchildren. Provence decided that having her investments all in one place, earning the same interest rate, would be easier to manage.

One day she mentioned this to a local tax preparer. "Have you heard of Doc Gallagher?" the preparer asked. Provence had. William Neil Gallagher, the owner of Gallagher Financial Group Inc., a financial planning firm, had an office in Hurst, practically down the road from her home. He also had a long-running show on Christian radio. Provence had never paid him much attention, but his name soon seemed to echo in her ears. A friend at the senior center mentioned that she and her husband had invested with Gallagher. An acquaintance from her church endorsed him, too.

After attending one of the free informational dinners Gallagher held at local restaurants, Provence went to see him at his office. A former high school basketball player, Gallagher, then in his mid-70s, had taken up swimming and marathons later in life. He was broad-shouldered, with a sweep of thick silver hair and the ghost of a Boston brogue. "He was very charismatic," Provence says. "Nice and knowledgeable and sincere."

Gallagher told Provence about his Diversified Growth & Income (DGI) program. By depositing her money into five categories of investment—Treasuries, third-party life insurance settlements, fixed index and what he called Investors Business Daily Formula and, separately, Value/Dividends—he could get her a 5% annual return, he explained. And he promised a 5% bonus on top of her initial investment just for signing up.

Provence thought of herself as skeptical, even suspicious. "With the rough childhood that I've had, it's made me a strong person," she says. "I've never been trusting of anyone." But she was impressed with Gallagher's financial savvy, the polish of his office and his devotion to Christianity: "I felt like the Lord had led me to him."

During 2016, Provence moved almost all of her savings to her DGI account. Her esteem for Gallagher only increased. He and his wife, she learned, were involved in charities and had adopted two grandchildren when their daughter couldn't care for them. From time to time he'd send Provence flowers or a gift card for Walmart or Home Depot. After she'd skimmed a Billy Graham coffee table book at his office, she was delighted to find a copy delivered to her house. Provence confided in Gallagher when she was having family troubles. "I felt like I could tell him anything," she says. "And he would pray with me."

In 2019, Provence's daughter opened a DGI account, too, investing about $140,000 with Gallagher. But when she looked at the binder of materials he gave her, it contained a portfolio of his accomplishments and good works—press clippings, a copy of a letter from former Governor Rick Perry, photos of Gallagher serving pancakes to the poor—rather than financial documents.

When her daughter, who asked not to be named, examined her mother's DGI statements, she found them troublingly sparse, showing little more than Provence's net holdings and the distribution of her funds into the five investment categories. Curiously, each investment type showed the same balance. Provence realized that, even though her money appeared to be growing as advertised, she had no idea where Gallagher was investing her savings.

"I got to thinking: 'Shouldn't I have known the names of these companies that have my money?' " she says. "But I was just so proud of myself for getting all my money in one spot and earning 5% interest on it." Provence asked Gallagher for more information. But by then, unbeknownst to her, her investment was already all but gone—along with tens of millions of dollars more from hundreds of other investors.

Her daughter's money was gone, too. "That was worse than me losing all mine," Provence tells me. "For me to refer my daughter for destruction."

AS ITS NAME SUGGESTS, FORT WORTH BEGAN AS a military encampment. A frontier outpost established in 1849, it became a cattle town and then, in the early 20th century and again in the 1970s, an oil town. Since the 2000s a natural gas bonanza from the Barnett Shale formation, which lies beneath the city, has been underway. Other major employers include American Airlines, Bell Helicopter and Lockheed Martin. With a population of more than 900,000, up from fewer than 750,000 in 2010, Fort Worth is one of the fastest-growing cities in the US.

Despite all this—the din of construction, the looping highway overpasses, the multiplying subdivisions and strip malls and shiny showpiece pickup trucks—Fort Worth continues to think of itself as a small town. In the '80s, when Gallagher settled there for good, one of the first things he did was buy cowboy boots. Eventually, he'd come to embody the city's mores and contradictions. His persona could seem perfectly designed to appeal to watchers of Fox News, but it was also a patchwork assembled from his own strange experience of 20th century American life.

Gallagher was born in New York City, the second of two boys. His mother, Rita, was a phone operator during World War II. His father, a firefighter, abandoned the family. Rita and the boys moved to Lawrence, Massachusetts, where she'd grown up poor in an Irish Catholic household. She remarried to a former classmate, Francis Gallagher, and had another son. Gallagher took his stepfather's last name but felt little warmth toward him. "Our relationship was noncommunicative," he tells me. Francis had diabetes, which was exacerbated by drinking. After he left his job as a wool sorter at a textile mill, the family subsisted on welfare, living in tenements. When Gallagher was 15, Francis slipped into a diabetic coma and died.

After graduating in 1963 from Rhode Island College, Gallagher, enamored with John F. Kennedy, joined the Peace Corps, teaching English in a village in northern Thailand. "I wanted to learn to live as a Thai, speak as a Thai," he says. At a cafe in Chiang Mai, he met an American missionary named Don. After talking with him, Gallagher began studying the Bible—searching, he says, for proof of its falseness. It didn't work out that way: "The more I read, the more I became convinced it was God's word. I accepted Jesus Christ as my Lord and savior."

Gallagher returned to the US and hitchhiked from Rhode Island to Texas, where he studied at the Brown Trail School of Preaching, in Bedford. He married a dental hygienist named Gail and got master's degrees in religion and philosophy. He preached outside Fort Worth and taught at local colleges before enrolling, in the '70s, to study philosophy at Brown University in Rhode Island. "I felt the Lord wanted me to get a quality Ph.D.," he says.

"I FELT LIKE I COULD TELL HIM ANYTHING. AND HE WOULD PRAY WITH ME"

But Gallagher struggled to assimilate. He'd undergone another conversion. "Growing up as a Democrat, the view was: The government owes me a living," he says. "When I came to Texas and saw the pioneer spirit, the entrepreneurial spirit, I saw we are responsible for our success." At Brown, he later wrote, he'd found his classes to be "brainwashing drills: 'Government is good; society is bad; people are helpless.' " His resentment deepened when, after completing his dissertation, he couldn't find an academic job. He attributed the failure to affirmative action.

Gallagher had been ministering at a church in Providence, where he and Gail sometimes took in people who needed housing. They'd had two children of their own and adopted a son from an orphanage in India. The family eventually moved to Mississippi, where Gallagher worked for the American Family Association. A Christian fundamentalist nonprofit, the association has orchestrated boycotts against media and businesses for promoting LGBTQ causes, abortion rights and titillating content. Since 2010 the Southern Poverty Law Center has labeled the organization a hate group. But Gallagher, who left prior to that designation, remains proud of his work there. "We pioneered the strategy of going after advertisers for immoral programs," he says.

Gallagher published *How to Stop the Porno Plague: A Simple, Straightforward Action Plan That Can Work in Your Community*, a screed trafficking in dubious warnings about child pornographers and progressive-minded speech that prefigured modern extremist talking points. Speaking about the book on radio and TV, Gallagher got a taste of public life. As a panel guest on the national ABC talk show *Issues and Answers*, he endured what he recalled as an ambush: "a raging ACLU chief, a pompous professor, a scolding journalist, a mocking host." But Gallagher relished the experience. "When ▶

PHOTOGRAPH BY JAKE DOCKINS FOR BLOOMBERG BUSINESSWEEK. PREVIOUS SPREAD: YOUTUBE(6)

◀ they don't have an answer," he later wrote, "they stammer, stutter or run. Or slam the teller of truth."

Gallagher and his family moved to Memphis, where he became a securities broker for Dean Witter Reynolds (which later merged with Morgan Stanley), and finally to Fort Worth, where he took a similar job with A.G. Edwards (which ultimately became part of Wells Fargo & Co.). He studied under the Texas sales guru and motivational speaker Zig Ziglar and built his business by conducting seminars. Gallagher saw finance as an extension of faith. It was a means of acquiring wealth that he could distribute to charity and of providing clients with independence.

"Even though he wasn't a preacher anymore, he still had the same values," Gallagher's adopted son, Matthew, recalls. "We would still do our Bible study every night. If the kids were fighting, he'd have us all sit down in the living room, talk it out and pray together."

IN THE EARLY '90S, GALLAGHER FOUNDED Gallagher Financial Group, in Hurst, and later opened a Dallas satellite. Before long he was a regular presence on local Christian radio, eventually hosting a show several times a week on four stations. Matthew, who became a certified financial planner and an employee of GFG, joined him as a frequent co-host. (Matthew has never been accused of wrongdoing.)

Gallagher's show, which went by various names, covered subjects such as 401(k) alternatives and estate planning. But it was heavier on self-promotion and fearmongering than advice. Folksy in manner, Gallagher issued alarmist warnings about market instability, government meddling and the greed of big-city elites. Following economic meltdowns, he said, retirees who'd placed their faith in major brokerages "had to stand in lines to get surplus cheese and bread." He claimed his own clients lost nothing. With "less government, more personal responsibility and with the help of God," he offered to provide similar protection to others.

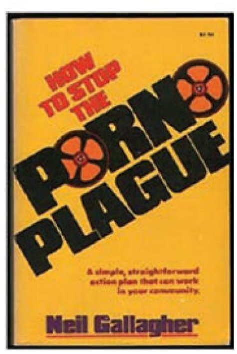
Gallagher positioned himself as a former insider who'd repented for his Wall Street past and could share with clients what others didn't want them to know. "We don't work for Los Angeles, Chicago," he said. Even as he repudiated academia, he emphasized his Ph.D., referring to himself, in an evocation of his advanced degree and the Wild West, as "Doc" Gallagher. Books such as *Jesus Christ, Money Master: Four Eternal Truths That Deliver Personal Power and Profit* and *The Money Doctor's Guide to Taking Care of Yourself When No One Else Will* provided a patina of intellectualism. Photo ops with figures including Joel Osteen, Nolan Ryan and Dallas real estate doyenne Ebby Halliday endeared him to his clientele.

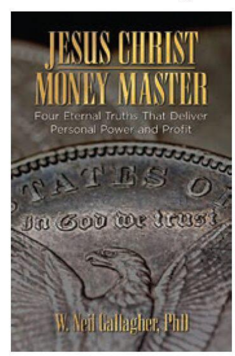
When not in the office, Gallagher was often at the wheel of his late-model Cadillac, visiting clients at home, in the hospital and at church. He liked to quote from Psalms: "This is the day that the Lord has made; let us rejoice and be glad in it." Warm and boisterous, Gallagher projected casual confidence. He favored the soft sell. Susan Pippi, a former client, says: "He went about things slowly. He didn't pressure you." Some clients saw him as extended family, asking him to speak at weddings and funerals. "I trusted him like a brother," Pippi recalls. Still, another former client, Yvonne Blackard, noticed that whenever she asked a question about her Diversified Growth & Income account, Gallagher found a reason to leave the room. At a birthday party for her husband, Gallagher stood to speak. "But it was about his financial thing," Blackard says—a promotional spiel.

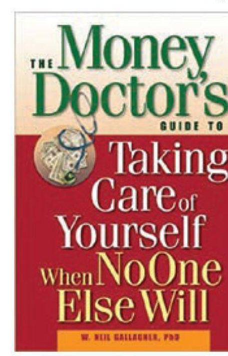
Gallagher created the DGI program after encountering regulatory trouble. In 1999 he was reprimanded by the Texas State Securities Board for allegedly falsifying records and representing himself as an investment adviser—he was licensed to sell securities, not give financial advice. Gallagher denied the charges and was fined $25,000. He gave up his broker's license in 2001.

Gallagher sold his brokerage for an undisclosed sum and refocused his business on nonsecurities investments. But the money from the sale wouldn't last, and his diminished status seemed to hurt his ego. According to Matthew, his father "wanted to stay a big name. He wanted to stay out there in front of everybody." Matthew says he questioned spending on large radio buys: "There's marketing to grow your business, and there's reasonable costs for that. That's not what he did. He did marketing for 'Doc.'"

Gallagher didn't welcome the advice. "He would get very angry with me for questioning him," Matthew says. He and his dad were close. But Gallagher could be emotionally remote. Matthew sometimes confided in his wife or mother about his frustrations at work. This, too, upset Gallagher, who told his son to compartmentalize: "He would say, 'You have to be like a policeman. When a policeman gets home, they take off their gun and badge and leave everything in the car. You go in, and it's a whole different person.'"



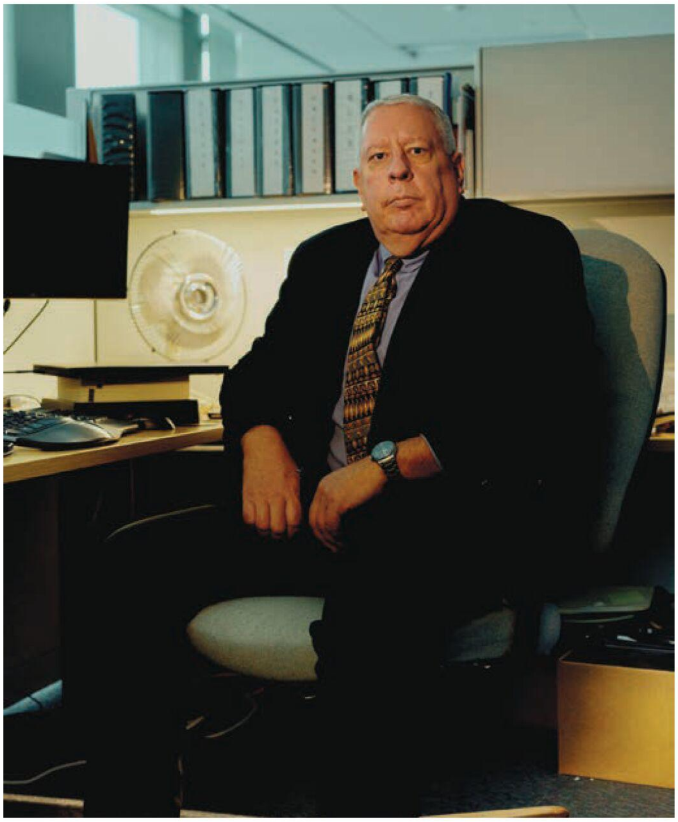




IN 2015, STEVE RICHARDSON, AN INVESTIGATOR with the Texas Department of Insurance, got a call. It was from Barbara Krueger, an investigator at Allianz Life Insurance Co. of North America. Recently, Allianz had received several requests from Gallagher to make withdrawals from annuity investments on his clients' behalf. In the case of a 92-year-old woman named Doris Fenner, Gallagher had submitted a striking number of requests. The Allianz payments would've triggered big early-withdrawal penalties, and Krueger called Fenner's grandson, Ryan, who had power of

PHOTOGRAPHS BY JAKE DOCKINS FOR BLOOMBERG BUSINESSWEEK (2)

Richardson, the insurance investigator



attorney, to confirm he was cashing out. Ryan said he'd never authorized the withdrawals, so Allianz hadn't issued any payments. (Fenner died in 2021.) The circumstances struck Richardson as suspicious, and his office opened a case.

Richardson subpoenaed Gallagher's bank records, and he saw a pattern. Gallagher conducted most of his business out of one account at a local bank. The records showed several large deposits that were each followed by a few dozen withdrawals, often cashier's checks made out to Gallagher Financial Group clients. Many of those checks were then redeposited into the same account. This movement of funds—without any intermediate investment in the stock market or other vehicle—amounted, in Richardson's mind, to evidence of a Ponzi scheme.

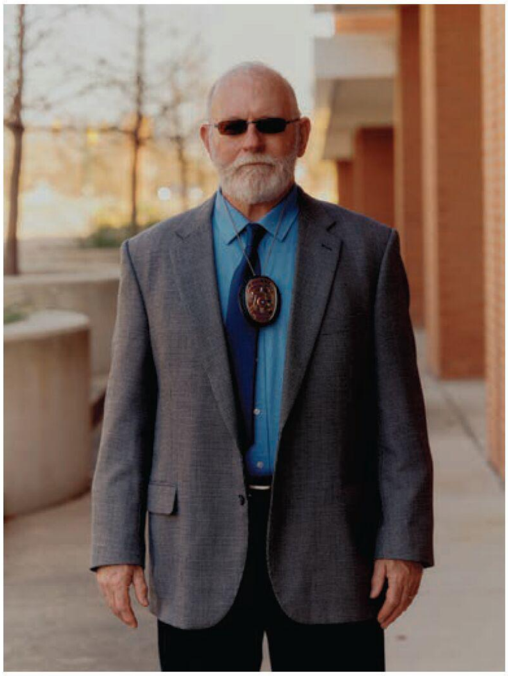
He used Gallagher's records to identify other clients. Richardson learned that many of them had transferred significant portions of their savings, in some cases cashing out retirement accounts. Most were senior citizens, and virtually all were observant Christians. They often reported receiving regular dividend payments. None had anything bad to say about Gallagher, and some wondered why Richardson was poking around. He recalls: "They said, 'Why are you asking about this? Gallagher's a good man. Gallagher's a man of God.' "

Like Linda Provence, the clients Richardson spoke to were vague about what Gallagher was doing with their money. But they were sure of his character. "They said: 'He would eat dinner with us. He would pray with us. When I had difficulty with my computer, he would send somebody over.' " Gallagher warned against the overreach of regulators in his books and on the radio, and clients reported back to him about Richardson's visit. "Traditionally in investigations, someone's upset," Richardson says. "At this point, I don't have anyone who's upset."

He made little progress for more than two years. Then, in 2018, he got a call from Jim Hobbs, a detective at the Hurst Police Department. Hobbs was familiar with the idiosyncrasies of elder fraud investigations, in which victims often don't come forward. "There are people who fear that if their family finds out that they're missing their money," he says, "they'll take control of their finances, take away their freedom."

Some months earlier he'd received an unusual complaint from a couple, James and Carol Herman. They'd shown up in person, and, unlike some elderly victims Hobbs encountered, they weren't reticent. They were furious. In 2015, James, then a 68-year-old petroleum engineer, was working near Dallas and heard Gallagher on the radio. He and Carol, then 63, had recently discussed diversifying their investments to ensure they could live comfortably in retirement, and Gallagher's pitch was enticing. After meeting with him, the Hermans emptied their 401(k)s and ultimately transferred almost $700,000 to a DGI account.

Detective Hobbs



Carol, a nurse, suffered an injury in 2017 and could no longer work. She and James, who was by then retired, spoke to Gallagher about doubling their monthly withdrawals. Gallagher initially suggested they instead take out a reverse mortgage on their house—a bank loan, based on the amount of equity they had in the home, to be paid off when it sold. "We said, 'No way and no how,' " Carol recalls. "I became livid." Soon thereafter she called Gallagher to withdraw $100,000. But he proved uncooperative. "Every time I would call and ask questions, he'd send flowers, candy, a fruit basket," Carol says. "He told us that he wanted to send us on a trip to the Holy Land." The Hermans eventually got a meeting with Gallagher in Dallas. They were able to wrangle the $100,000 from him, but he couldn't provide detailed information about their account. Afterward they drove to Hurst and spoke with Hobbs.

Hobbs and Richardson coordinated with the Securities and Exchange Commission, the Texas State Securities Board and prosecutors in Dallas and Tarrant County, which includes ▶

◀ Fort Worth, to get additional records and interview dozens of Gallagher investors. The stories they heard were nearly identical. Few clients sensed anything amiss. But by 2019 law enforcement had gathered overwhelming evidence of fraud.

That March, the SEC filed a complaint accusing Gallagher of misappropriating almost $20 million from about 60 investors. He was soon arrested and pleaded guilty in Dallas to securities fraud, receiving a 25-year sentence in state prison. In an instance of Texas justice, a second plea–to charges including fraud and theft–in a case in Tarrant County earned him three concurrent life sentences. At a 2021 hearing, victims described selling homes and borrowing money from their kids to stay afloat. Susan Pippi testified, "I will never trust anybody but God and my immediate family again."

The Dallas judgment required Gallagher to pay $10.4 million in restitution. (The judge in the Tarrant case didn't order any financial penalty.) But by then his primary bank account held less than $900,000. Tracking down the remaining money known to have been placed with him–a total that rose to $23.6 million, extracted from almost 200 investors–fell to a court-appointed receiver, Cort Thomas. When I visited him at his Dallas law office, Thomas, a preppy Texan in his 30s, said Gallagher's Hurst headquarters was a mess: "The majority of the stuff was just old mail, a bunch of trash."

With the help of forensic accountants, Thomas determined that Gallagher had made significant payments to the radio stations where he'd been a host. He was buying airtime, it turned out, but the programs weren't always adequately labeled as advertising. Thomas reached settlements with them totaling nearly $6 million. He also recovered small sums from, among other vendors and nonprofits, the John Birch Society ($7,400), Hillcrest Church of Christ in Arlington ($4,000) and storage company LTL Management ($3,717).

Gallagher had also funneled cash to dubious investments, such as an apparently fraudulent gold mining business and a company called Hoverink Biotechnologies Inc., which first purported to be a recreational hovercraft business and later a maker of sci-fi-style body armor and miracle cancer drugs. Thomas didn't manage to recover any money from the mining business or Hoverink, though.

Gallagher didn't have an extravagant lifestyle–a handsome but unflashy suburban home and a lake house in need of updating–and a substantial amount of money still appeared to be missing. At some point, Thomas discovered a third office that Gallagher kept secretly at LTL. Inside was a large safe. "Your heart starts pounding," Thomas recalls. "I've found the hidden treasure trove!" The safe contained a paper list of gold and silver items, the imprints of which appeared to line its floor. But it was otherwise empty. "Kind of a gut punch," Thomas says. To date, he's returned to Gallagher's investors roughly $6.6 million, about a third of their total losses.

HE BRISTLED AT THE DESCRIPTION OF HIM AS THE BERNIE MADOFF OF NORTH TEXAS: "HE HAD A SEASIDE VILLA. I DIDN'T BUY YACHTS, I DIDN'T TAKE VACATIONS"



Thomas, the court-appointed receiver

PHOTOGRAPH BY JAKE DOCKINS FOR BLOOMBERG BUSINESSWEEK

AT LEAST SOME OF THE MONEY APPEARS TO have gone through a woman named Debbie Carter. Gail, Gallagher's wife, had told Thomas about Carter soon after Gallagher's arrest. A former securities broker, Carter had worked with Gallagher at A.G. Edwards and later as his employee. More recently she'd been at Daystar Television Network, a Christian channel that emphasizes the prosperity gospel, where she worked as an estate planning specialist, drumming up donations. Carter referred numerous clients to Gallagher, including his biggest, Seabern Tindel, a retired Bell Helicopter employee who invested more than $2 million with him. (Tindel died in 2020.) According to Gail, who more than once hired a private investigator to look into the matter, Carter and Gallagher carried on an affair for more than a decade. Gallagher acknowledges the affair but says in recent years his relationship with Carter was strictly professional. (Carter's lawyer didn't respond to multiple requests for comment on a detailed list of emailed questions.)

Around GFG headquarters, Carter was known to some staff only by an alias: Dr. Burnett. She'd made efforts to conceal her financial relationship with Gallagher, Thomas found. At Ciera Bank, where Gallagher did most of his business, Carter had an account, and another in her daughter's name, on which she was a signatory. Gallagher often deposited large cashier's checks into the account nominally belonging to her daughter, and Carter would then transfer the money to her personal account. (Carter's

daughter was unaware of the account in her name, according to investigators.)

In a deposition given by a former Ciera employee, Noah Weatherly, he said he once questioned Carter about the pattern, and Gallagher—"a celebrity-type customer in there"—called to berate him. "He was basically yelling at me, telling me that if I ever questioned his employees' accounts... I need to call him first." Weatherly added that Gallagher threatened to get him fired: "Then he said a few curse words at me and hung up."

Thomas had traced additional payments to limited liability companies Carter controlled and others to mortgages linked to her. A lot of cash seemed to flow to purchases of rural properties south and west of Fort Worth, including a 1,096-acre ranch in Dublin. In a note Gallagher sent Carter from prison, he wrote: "What they are looking for is (presumably) millions of dollars I transferred to other people to 'hide' my assets. Didn't happen. The 40K I sent monthly [to Carter and her daughter]... was to buy land for the eventual construction of a free Senior Wellness Center for my clients. Remember?" But nothing in his records suggested such a plan. Ultimately, Carter received at least $1.5 million from Gallagher, according to Thomas's calculations.

On March 10, 2021, Hobbs signed a warrant for her arrest for theft, money laundering and related crimes. Two days later, he and a police tactical team that included snipers and a drone operator drove up a dirt road to the ranch where Carter was living with her family. (Carter had by then ceded the Dublin ranch to the receiver, who sold it for $2.8 million, and moved to a slightly smaller ranch in nearby Carlton.)

Standing in the front yard in her pajamas, Carter was pleasant and outgoing. She told Hobbs where he and his team could find a stash of gold and silver that included South African Krugerrands, Royal Canadian Mint Leaf bars, Sunshine bars and President Trump coins, with a total estimated value of as much as $300,000. Hobbs says, "She answered all my questions, except whether she was having an affair with Doc." On that point, Carter told him, "I plead the Fifth."

ONE DAY LAST JULY, I DROVE 200 MILES SOUTH from Fort Worth to Navasota, the prison town where Gallagher is incarcerated. It was 110 degrees. Parched rangeland stretched for acres beside the highway, where cattle sheltered beneath stands of trees.

Gallagher entered an area designated for interviews wearing a short-sleeved jumpsuit. Gail had divorced him, and, with the exception of his son Matthew, friends and family had largely abandoned him. Gallagher doesn't like prison food and rarely has money for the commissary; he appeared shrunken, with thin, liver-spotted forearms. But he was tickled by the visit. "You came all the way from North Carolina?" he asked, his blue eyes shining behind rimless glasses.

Speaking through a screen, Gallagher told me he'd been making friends. "I'm different here," he said. "A lot of these guys have never finished high school." On the outside, he said more than once, he was famous. His high profile explained his draconian sentence. But he bristled at the description of him in the *Dallas Morning News* as "the Bernie Madoff of North Texas": "He had a seaside villa. I didn't buy yachts, I didn't take vacations."

Unlike true con men, Gallagher insisted, he'd turned crook out of a sense of duty to causes such as the North Texas Food Bank and the Alzheimer's Association. He claimed that a public offering for the onetime hovercraft company, Hoverink, of which he owned more than a million shares, would've netted him $10 million. "It was wrong to borrow that money without clients' permission," he said. "But I would have had it all paid back by the end of April 2019." Yet his records show only relatively small charitable contributions, and there's nothing to indicate that Hoverink, which went out of business in 2020, had any value. Gallagher later amended his story, telling me he was "conned into putting money into a worthless stock." Further complicating the picture is that, until 2019, Hoverink's chief executive officer was Debbie Carter.

One evening a few days after visiting Gallagher, I met Lori Varnell, the Tarrant County assistant district attorney who prosecuted him, at a Cheesecake Factory. She was having a cocktail at a high-top table in the bar. Varnell was busy preparing for Carter's trial, which is scheduled for September. (Carter hasn't entered a plea.) Gallagher is expected to testify.

Attached to reports filed in court by Thomas are more than two dozen photos of Gallagher's offices: piles of paperwork and trash, rumpled clothing, discarded plastic bags, toilet paper, a stick of deodorant. Nothing in them indicates pride or prosperity. In one image, atop a plastic folding table, are manuals with names such as *Stay Rich for Life!: Growing & Protecting Your Money in Turbulent Times*, *The Comedy Thesaurus: 3,241 Quips, Quotes, and Smartass Remarks* and *On Writing Romance: How to Craft a Novel That Sells*. I asked Varnell whether one could be forgiven for wishing that Gallagher *had* spent some of the money on yachts and vacations—that there had been some clearer point to it all.

"There is or was a goal," Varnell said. "And the goal was achieved." She declined to elaborate or talk specifically about the Carter case but seemed to be referring to the rural land acquisitions, including the Dublin ranch, outside Fort Worth. In a letter to me, Gallagher wrote: "Any land within 100 miles of Dallas/Fort Worth is (these days) pure gold. What had been ranches were now subdivisions, schools, and stadiums. What had been farms were now shopping malls, amusement parks, and strip-shopping centers. I jumped at the chance to buy that real estate, believing it would double in a very, very short time, allowing me to pay back substantial sums to clients."

It's hard to accept this explanation. Until I asked about them, he'd neglected to mention his real estate investments at all. But in its undeveloped state, the ranchland Carter acquired was undeniably majestic: ridges and creeks, grassland and pasture, hunting grounds and lakes. "Some people think of Bermuda as being their land of paradise—their Beulah land," Varnell said. "Lots of people think of Texas." Ⓑ

Cornering



Hagerty was just a Midwestern insurance company for vintage vehicles. Then its CEO decided to buy up the industry

April 3, 2023

Classic Cars



By Hannah Elliott
Photographs by Sergio Fernandez

Every August, the world's most discerning car collectors descend on Carmel-by-the-Sea, California, for an unadulterated automotive orgy. The occasion is Monterey Car Week, where enthusiasts staying at four-night-minimum resorts arrive on dew-drenched hotel lawns in the early hours to ogle vintage Jaguars and Porsches. By afternoon they'll cram into white auction tents to bid millions on the blue chips, a Mercedes-Benz 300 SL Gullwing or a Ferrari 250 GTO. Come evening, Bugatti, Lamborghini and Rolls-Royce will host candlelit dinners overlooking the yachts in Carmel Bay and offer VIPs private meetings with top-ranking car executives and sneak peaks of upcoming models. Flexjet parking is always on tap; the loafer and scarf count is high.

The week climaxes on Sunday at the Pebble Beach Concours d'Elegance, a car show on the 18th fairway of the golf course. It's like a very fancy dog show, but for cars. As guests order seafood towers and sip Champagne, navy-jacketed judges inspect the purebreds of the auto world: Alfa Romeos and Bentley Blowers decorated with liveries from races won last century; Duesenbergs and Packards with art deco fenders the size of card tables; Lamborghinis painted as bright as Skittles. The winner gets ribbons, a trophy, a bump in their car's value—and bragging rights.

This year brought with it an unusual addition to the upper-crust ranks: a Midwestern insurance company working hard to fit in. Auto brokers, nouveau riche collectors, restorers and retired racing champions gossiped near auction tents and late-night fire pits, noting that Traverse City, Michigan-based Hagerty Inc. had given itself a makeover.

On Wednesday, Hagerty hosted a gala at a local jet hangar. On Thursday its newly acquired Broad Arrow auction house took in $55.3 million in total sales. On Saturday, it sponsored free food and drinks in a suite at Laguna Seca Raceway. On Sunday, it was Chief Executive Officer McKeel Hagerty himself, shaking hands near the winners podium. "They did seem to be everywhere during Car Week," says Greg Fazzio, a Hagerty insurance customer who attended the festivities.

Recently, Hagerty—the man and the brand—has been on a tear. The company, founded in 1984 by McKeel's parents, has long insured classic cars and provided market data on their fluctuating values. In the past two years it's tried to trade in its humble image for something much more audacious—that of a conglomerate that owns every aspect of the collectible car universe, including auctions, brand experiences, data, events, logistics, media and storage. It's acquired half a dozen major car events nationwide, such as the intimate Amelia Island Concours d'Elegance in Florida



● McKeel Hagerty

and the exclusive California Mille rally. It's opened car storage clubs in Chicago, Los Angeles, Miami and five other cities. It's purchased a handful of auto-related tech companies, including the creator of a motor sports event management system and a tech provider, Speed Digital. It also operates DriveShare, a peer-to-peer classic car rental service it bought and relaunched in 2017, and runs an online classifieds section for 753,000 paying members. In recent years it began publishing *Hagerty Drivers Club*, a bimonthly magazine, and *Radius*, a quarterly distributed to top collectors.

Hagerty says that by cornering the market he'll save classic car culture, a loose term used to describe the disparate local groups of car aficionados scattered across the country and, these days, social media. It's a universe made up of an estimated 43 million collectible vehicles, whose values have risen more than 190% in the past decade, according to the Knight Frank Luxury Investment Index.

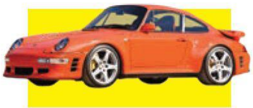
Hagerty says this culture is threatened by increasingly stringent transportation regulations and a declining interest in the more traditional aspects of the hobby, like learning how to operate a manual transmission. As people become captivated with autonomous driving, he says, the network required to preserve old cars—brokers, collectors, curators, drivers, investors and mechanics—dwindles. Those gorgeous old Bentleys and Jaguars with their rumbling engines and antiquated brakes are already so rare that seeing one drive across a concours lawn is like encountering a Bengal tiger in the wild. If they're not protected and well cared for, Hagerty believes, this endangered species will go extinct. "I love the car world," he says. In 2014 he created the National Historic Vehicle Register to document important cars in America's past. "I really wanna see it last long term, but I don't think that's a given."

The industry has never witnessed a shake-up like this. Hagerty's growing empire not only presents uncomfortable potential conflicts of interest, it also raises the question of whether the nation's 120-year-old classic car culture—rich with hundreds of tribes devoted to everything from American lowriders to Italian exotics—can maintain its diversity under an expanding corporation posing as its savior. "There is a terrific automotive lifestyle business being built before our eyes," says Donald Osborne, an automotive appraiser, TV host and writer who worked as a consultant for Hagerty for a decade and hasn't been seen in public without a bow tie for years. "But what does that have to do with insuring collector cars?"

There's no one kind of car collector. Muscle heads love the guttural roar of the V-8 engine in a vintage Mustang. Palm Springs country clubbers swoon for those old Porsche 356s that channel the Volkswagen

CAR: COURTESY OF AUCTION HOUSE

▼ Some of the cars on the block at Amelia Island in March



● 1998 RUF Turbo R

Offered by: Gooding & Co.

Estimate: $1.4m-$1.8m

Similar sale: $764k (RM Sotheby's, 2021)

Sold for:

$1.6m

Beetle. #Vanlife enthusiasts import tiny, velour-lined Toyota HiAce vans, hipsters get into bidding wars over 1980s Broncos, and Rodeo Drive scions endure yearslong waiting lists for customized Ferrari 296 GTBs and Lamborghini Aventadors.

Most have just one vintage car they drive on the weekend. They don't need the workaday insurance of a Honda commuter, just something to cover the limited miles they put on the old 'Vette. Classic car insurance considers minutiae such as how and where a car is stored, down to the terrain of the driveway and the topography surrounding the garage. It also evaluates variables like how often, when and by which means a car is transported, how many miles it may be driven a year and how much it may gain in value.

In past decades, Hagerty has earned a reputation in a market with competitors such as AIG, American Collectors Insurance, Chubb and Grundy for fair pricing, friendly employees and transparent data. Its value guides help give eager buyers a sense of where they can expect prices to go, and Bloomberg has long cited Hagerty data in its coverage of collectible cars. "McKeel should have great credit for transforming it from what was a relatively minor insurance company into the most important classic car insurer, at least in America," says Steven Harris, a renowned New York architect and Porsche collector. "I think if I were to imagine what McKeel is thinking, he's thinking that this is the next transformation."

Hagerty restored his first car—a 1967 Porsche 911S—at 13, mostly using money he made mowing lawns in Traverse City, 250 miles north of Detroit. At 18 he was selling insurance for his parents' company. But after graduating from Pepperdine University, he decided to go to seminary to become a Russian Orthodox priest. (He was raised Methodist.) In the early '90s he changed his mind, instead pursuing a Ph.D. in philosophy at Boston College—until he changed his mind again. By 1995 he was back at the family business. Frank, his father, had retired, and his mom and two sisters were running the faltering 35-person company.

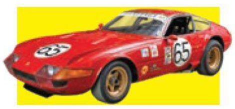
Hagerty says his years studying religion gave him insight into how communities are built. "When I thought about this very nichey, very fragrant, very beautiful world of the Orthodox church, it reminded me a lot of the car world—this idea that there are these deeply passionate people—about these things that may or may not be really widely recognized in society," he says. Insurance was a boring trade, but he already had ideas about how to build it into something sexier and more lucrative. "If we just created more of a car club that was about the members, we'd never have to talk about insurance ever again," he recalls thinking at the time.

By 2000, he was CEO. The company, owned by the three siblings and their parents, was insuring about 175,750 vehicles, a fraction of the 2.2 million cars it insures today. (Geico, by comparison, insures more than 28 million.) He eventually married his third wife, Soon Nguyen, a glamorous publicist from Los Angeles who represented Lamborghini and other high-end clients. She'd taken on the Hagerty business before they were married, and within a few years became its senior vice president for brand strategy. "It really felt like working for a very small ▶



● Collectible Lamborghinis at Hagerty's Amelia Island event in March

◀ family company when I first worked with Hagerty," says Osborne, the consultant and industry fixture. "Soon brought LA to Traverse City. The style and polish that the company has today, its image, is all her."



● 1969 Ferrari 365 GTB/4

Offered by:
Broad Arrow Auctions

Estimate:
$600k-$650k

Similar sale: $800k
(Bring a Trailer, 2022)

Sold for:
$588k

Hagerty started polishing his personal brand, too. In 2016 he became chairman of the Young Presidents' Organization, and a year later he co-founded Grand Ventures, an investment fund targeting tech startups with ties to the Midwest. He started writing books and launched an eponymous blog, where he now shares self-helpy business wisdom.

Then, in 2019, he quietly bought the Greenwich Concours d'Elegance in Connecticut. "I knew about the deal, but Greenwich wasn't exactly a show I attended," says one prominent automotive broker who asked to remain anonymous to protect his business relationship with the company. The concours, set along the harbor overlooking Long Island Sound and featuring about 100 vintage Ferraris and Mercedes-Benzes, wasn't particularly respected among the elite car set. "It was kind of funky and needed a little bit of an overhaul," says Hagerty, who won't disclose how much he paid for it. Even if the event didn't have prestige, he finally had entry into the subculture of the obsessives. "You gotta play very heavily in the car culture space," he says. "It's the only way [to save driving]. Insurance is certainly not gonna do it."

The following year, Hagerty acquired its first rally, an invite-only, multiday group drive called the California Mille, long operated by members of the prominent Swig real estate family, for an undisclosed amount. Then, in 2021, the company tried to buy the granddaddy of them all, the Pebble Beach concours. Sandra Button, the concours's





● Spectators study the classics



● Taking a blue-ribbon Rolls for a spin



chairperson for more than two decades, is notoriously protective of her crown jewel. McKeel was rebuffed, according to multiple sources close to the matter. "She will never sell, especially not to Hagerty," says one person close to the matter who requested anonymity for fear of professional backlash from Hagerty. Pebble Beach concours officials declined to comment. Hagerty declined to confirm or deny the reported purchase attempt.

If the snub happened, it didn't appear to discourage McKeel, who'd also set his sights on the Amelia Island Concours d'Elegance, run by its octogenarian founder, Bill Warner. Held on the Ritz-Carlton Hotel golf course, Amelia Island was the second-most prestigious car show in the US after Pebble Beach. With its laid-back beachy Florida vibe and the RM Sotheby's auction tent set right on the hotel grounds, it had an insider feel that made it a favorite among the industry's more discreet and established buyers. Plus, the Warners gave it a mom and pop touch that endeared them to a loyal following who trekked back to the island year after year. "My wife was equally involved with me, up at 5 a.m. every morning to wave people onto the field," says Warner, who sold it to Hagerty for an undisclosed amount in June 2021.



● 1959 Ferrari 250 GT LWB

Offered by: RM Sotheby's

Estimate: $9m-$11m

Similar sale: $7.7m (Gooding & Co., 2015)

Sold after auction for undisclosed price

By then, collectible cars were experiencing a pandemic boost, and McKeel decided to take his growing conglomerate public via a special purpose acquisition company, or SPAC. With the trendy financial vehicle, he could avoid the hoops of an initial public offering—which would be particularly helpful since one of his sisters with whom he owned the business had some troubling health issues. "I just had this fear that something could happen to one or both of my older sisters, and if I didn't get this underway, it would be really hard to do later because of just how tightly held the business was." The company announced its SPAC plans in mid-August. A week later, Kim Hagerty died after what the family described as an accidental fall. (Hagerty declined to share specifics.) On Dec. 3, the company went public at a valuation just over $3 billion. "My gosh, it turned out to be very, I mean, good timing," says Hagerty.

Joining the public markets raised the company's profile and allowed it to continue its acquisition spree. By summer, it purchased Broad Arrow Group Inc., which owns the classic cars auction house of the same name. The move was controversial not only because Hagerty named Broad Arrow the official auction house of Amelia Island's concours—where RM Sotheby's, the classic cars division of the auction stalwart, had long dominated—but also because it elevated a high-profile Sotheby's defector. Just months earlier, Broad Arrow CEO Kenneth Ahn, who'd been president of RM Sotheby's, joined a group of his former employees and started Broad Arrow as a direct competitor, resulting in multiple lawsuits between the two companies. (The cases have since been settled.)



● 1962 Ferrari 250 GT SWB

Offered by: Gooding & Co.

Estimate: $18m-$20m

Similar sale: $8.6m (RM Sotheby's, 2012)

Sold for:

$18m

Hagerty says the vision for his new empire is not dissimilar to USAA, which offers members insurance, banking and other services, including perks on car rentals, home security, shopping and travel. "If somebody decides to sell a car at one of our auctions, I hope we get 'em as an insurance customer," he says.

But critics say the company's new grip on the industry goes beyond symbiosis—it now has an unprecedented advantage. With access to valuable information about specific vehicles, Hagerty can identify, insure, store and even set values at its own auctions. It also owns the International ▶

◀ Chief Judge Advisory Group (ICJAG), which sets the judging standards at a given event. Concours judges evaluate things such as how close to original a car is, its overall condition and quality, and whether, for instance, the engine must start as criteria for winning—aspects often enforced arbitrarily and to different degrees, depending on the show. In 2020, Hagerty named Nigel Matthews, who was already a global brand ambassador for the company, as ICJAG chairman. "This development gives Hagerty a huge lever with which to influence, if not outright control, a huge piece of the market," says Daniel St. Pierre, a longtime car enthusiast based in Edmonton, Alberta. "They now essentially own the supply chain from the product to the sales machinery to the service [insurance] business." (A spokesperson for Hagerty says Matthews is not involved in Best in Show or Best in Class decisions, and all results are overseen and verified by a third-party accountant.)

Hagerty's biggest potential conflict of interest is data, which is extremely valuable in the secretive world of million-dollar cars. Because insurance policies require vehicle identification number, location and other private information, Hagerty can access the details of thousands of expensive cars far better than even the companies that made them—and becomes the de facto authority on their valuation. It can use that information to help match buyers and sellers in closed-door deals and arrange insurance for any cars sold at auction, setting values along the way. For example, someone looking for a rare Porsche 550 Spyder (which recently sold for \$4.1 million) could work with Hagerty staff to find out where one of the fewer than 100 made is located, then make an offer—based on and backed by Hagerty values—to buy the vehicle. The presumed margins for Hagerty on these private sales would be substantial, since it wouldn't have the overhead expense of selling the car via auction.



● 1932 Alfa Romeo 6C

Offered by:
Broad Arrow Auctions

Estimate: \$1.5m-\$2m

Similar sale:
\$1.6m (Gooding, 2017)

Sold for:
\$1.3m

It's not illegal, but the market edge is eye-opening. "They're setting the values, they're having the auctions," says one former employee who requested anonymity for fear of backlash from the company. "They have an online marketplace and now online auctions, and they're telling people what to pay for stuff, telling people what to buy next." Says Warner, former owner of the Amelia Island concours: "It's a fair concern."

It's not uncommon for wealthy collectors to have egos as delicate as their rarefied cars. At the California Mille in 2021, at least three regulars noted that they weren't invited after Hagerty took over, and the oversight felt personal, they said, preferring to stay anonymous so as not to rouse more Hagerty ire. Those who did pay the \$9,500 entry fee reported lackluster accommodations, a disorganized driving route and three dinners where the only meat offered was pork. (A Hagerty spokesperson says that only one of the dinners included pork.)

During Monterey Car Week in 2022, a clueless staffer at Hagerty's hospitality suite refused entry to the celebrity Formula One race car designer Gordon Murray. A horrified onlooker offered her own wristband to Murray, only for him to be denied entry a second time. "The Hagerty company culture is rural," says one former employee on condition of anonymity. "But there's a lot of ambition. There's a lot of 'We're the next Apple, we're the next Peloton.'"



● 1959 Lister-Jaguar Sports Racing Two Seater

Offered by:
Bonhams

Estimate: \$600k-\$800k

Similar sale: \$423k
(Gooding & Co., 2023)

Sold for:
\$775k

Car shows aren't a particularly lucrative business. The cost of vendors, logistics, awards, insurance and staff is hardly defrayed by the negligible entry fee for local shows, which aren't big enough to attract major sponsors. Many of the events Hagerty has purchased were run by families who wanted to get out of the business anyway. "We never made a lot of money," Warner says of his Amelia show, which he describes as an "altruistic charity endeavor" that cost \$3 million to produce annually. "I had a staff of nine and a lot of volunteers, but we were rolling the dice every year."

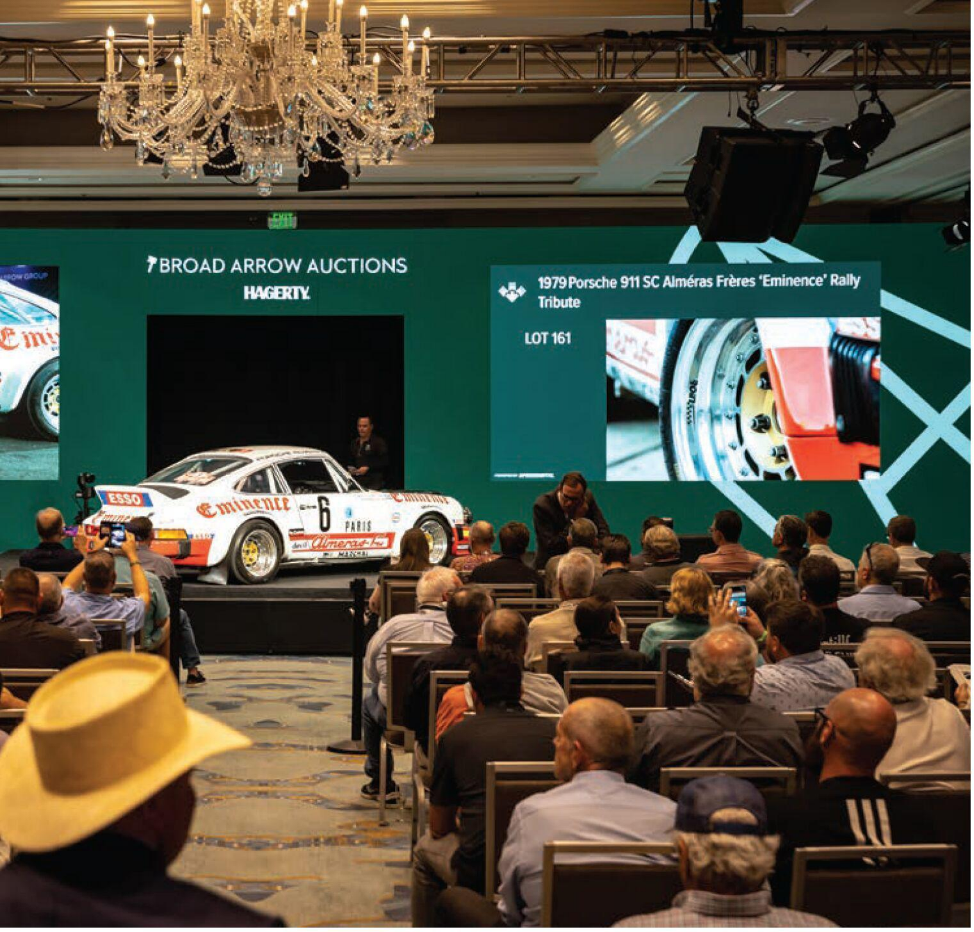


● Bidding on a Porsche 911 SC at Broad Arrow's auction

Other shows were embarrassingly outdated, in dire need of logistical and technological upgrades that Hagerty has delivered since taking over. "The whole industry is so sleepy and backward it's screaming for disruption," one observer says. Of course, old-world idiosyncrasies are often what give car shows their charm. Exploiting efficiencies that come with scale without steamrolling what makes the events special will be the challenge.

Hagerty continues absorbing even the quirkiest bits. In February 2022 it bought the Concours d'Lemons, a festival where people drive their oddball junkers to a golf course and parade them around as if they were mint-condition championship automobiles. The following month, Hagerty paid an

CARS: COURTESY OF AUCTION HOUSE (5)





● Judges at the Amelia Concours d'Elegance

estimated $3 million for Radwood, a show that celebrates 1980s and '90s-era cars such as Ford Escorts and Volkswagen Rabbits. "I'm fascinated by the business model and how this is gonna make any money," says Harris, the Porsche collector.

Hagerty declined to itemize which, if any, of his acquisitions have turned a profit. "Existing [and] potential profitability are of course considered but are not the only factors," he says of the company's financials, which he's not required to break out by individual businesses in financial statements. Insurance still generates more than 90% of revenue, which was $787 million in 2022, up 27% from 2021. But growing at the speed of a Bugatti comes with a cost. Last year the company offered a voluntary retirement program, which 30 employees accepted, then in December it laid off 6% of its staff, according to US Securities and Exchange Commission filings, eliminating more than 100 jobs.

Hagerty believes consolidating the industry under its banner will keep America's car culture alive, even though it's not all that clear the culture needs saving. These days popular hangouts such as Lower Manhattan's Café Leon Dore are pulsing with Alfa Romeo and Porsche groupies, while coffee meetups from Malibu to Montauk are drawing teen and twentysomething car fans who spend their free time playing *Gran Turismo* and watching Netflix's docu-series *Formula 1: Drive to Survive*. Last year online auction platform Bring a Trailer—half of whose users are 44 or younger, according to a company spokesperson—reported a record $1.3 billion in sales of classic cars. Even auction sales of the oldest, most expensive classics are up, and increasingly popular with buyers under 50, according to Bonhams. "It seems like every show that I go to, it's starting to get a younger crowd, a more diverse crowd," says Bradley Brownell, a co-founder of Radwood who's now director of the Crawford Auto-Aviation Museum in Cleveland. "I just don't know that Hagerty is the one doing that."

At the 2023 Amelia concours weekend in early March, Hagerty's corporate fingerprints were everywhere. As 25,000 car enthusiasts rolled in, they received QR codes for entry, alerting them about impending rain, scheduling changes and parking, while jumbo screens broadcast the awards ceremony across the main lawn. Meanwhile, old-timers grumbled they could no longer park freely along the country road leading into the concours, instead having to leave their cars in nearby fields for $40 a day. Hurley Haywood, the retired American racing driver, expressed disappointment to anyone who'd listen that he had to purchase tickets to the opening dinner, when in prior years he'd attended for free. The vibe, as it were, has shifted. "If Hagerty can bring corporate organization and financial support to events that might not exist, good for them, that's terrific," Osborne says. "On the other hand, I think it's important to understand why people participate in those events in the first place." Ⓑ

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For London's Biggest Party

The city hasn't hosted a coronation in more than half a century. Here's what you need to know to join the fun

By Sarah Rappaport and Kate Krader   Illustration by Justin Metz

April 3, 2023

Edited by Chris Rovzar

Businessweek.com

In June 1953, 27 million people in the UK gathered around their television sets to see 27-year-old Elizabeth Alexandra Mary crowned queen in a three-hour ceremony. Some 70 years later, on May 6, Charles Philip Arthur George will be, at 74, the oldest monarch ever crowned in the grand Westminster Abbey ceremony that dates to the 11th century. The plans, code-named "Operation Golden Orb," call for shorter formalities, though the anointment with holy oil and the presentation of the scepter and orb will go on.

Even those who aren't among the 2,000 invitees to the abbey will be primed to celebrate around London. After all, no one has seen a coronation in this part of the world for more than half a century. "Brits love a party. Even if you're not a raging monarchist, you'll appreciate the time off and good weather, hopefully, in May," says Sue Onslow, director of the Institute of Commonwealth Studies at the University of London. "The monarchy is a thousand-year-old institution, but Charles is looking to the future with a long track record of supporting young people and climate causes."

To complement the ceremony, the city will be awash in themed concerts, exhibits, cocktails and afternoon teas, with meet-ups for corgi owners and laser light shows. The coronation merchandise market is already out of control. And the beer will be flowing: In early March, the government extended licensing laws to allow pubs to stay open an extra two hours—until 1 a.m.—May 5-7. In other words, if you want to let loose in London, this is your moment.

"It's an event that's going to be seen by millions around the world and will showcase the best of British pomp and pageantry and our history," says Patricia Yates, chief executive officer of VisitBritain, the national tourism agency. She says the event has global appeal, especially for Americans, who are the key drivers behind the UK's tourism recovery.

According to Tim Hentschel, CEO of travel booking site HotelPlanner, the party won't break the bank, either. "The good news is for visitors looking to attend, they can save some serious money," he says. "Five- and four-star hotel rates have fallen by 30% in the past month or so, to an average of £650 [$796] a night for five-star hotels. Four-star hotels are averaging £380." The lower prices are due to the weakening of the global economy and inflation hitting consumers' ability to spend.

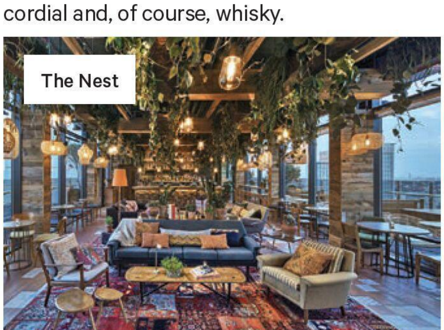
If you want to catch a glimpse of the royal couple on the big day, King Charles and his wife, Camilla, queen consort, will travel in the gold state coach from Buckingham Palace to Westminster Abbey, where they'll take the coronation oath and the king will don the Imperial State Crown. (Camilla's crown will have had the controversial 105-plus-karat Koh-i-noor diamond removed.) After the ceremony, the coach will travel through streets lined with well-wishers and back to Buckingham Palace, where the duo and their families will continue to wave from the Royal Balcony. The only outstanding question: Will Prince Harry and Meghan Markle attend? According to a Bloomberg/Deltapoll survey, 41% of Brits want Harry to attend, compared with 37% who think the opposite. As for Meghan, 43% hope she'll stay in California.

WHERE TO DRINK

HOTEL BARS

No city in the world does hotel bars better than London. The attention to detail is exceptional, and the drinks are expertly made, whether they're poured in cozy hideaways or on rowdy rooftops. As a bonus, the hot spots are often down- or upstairs from the place where you'll crash later.

Le Magritte Bar & Terrace
This handsome bar within the Beaumont in Mayfair is named for, and boasts recognizable artwork from, the celebrated artist René Magritte. The drink list includes the Speak Whisky to Me, a potent mix of amaro, red wine cordial and, of course, whisky.


The Nest

Lyaness
Mixologist Ryan Chetiyawardana's bar at the Thames-side Sea Containers was ranked world's best at the 2022 Tales of the Cocktail conference. One drink on the wildly unconventional menu: the Black Champagne, which adds gin, sarsaparilla and house-made "death bitters" to the bubbles.

Vesper Bar
A gold-leafed ceiling tops the Dorchester Hotel's new bar that nods to James Bond. (Author Ian Fleming was a frequent guest.) There's no shortage of martinis on the list, including the Martinez and the house version, a mix of gin, vodka and a hit of sherry.

Side Hustle
Set in England's first police station, this high-energy NoMad hotel bar serves Mexican snacks such as cheese-filled flautas and seasonal margaritas that might be spiked with jalapeños. Celebratory large-format drinks such as the whiskey, rum and coconut Blacktail go for £125.

Scarfes Bar
Anchored by a fireplace, with deep velvet-covered chairs to sink into, the Rosewood's jazz bar is an institution. The Crown Jewels mixes lemon gin, vermouth and tropical pandan; Save the Date blends whiskey, green walnut and date wine.

The Nest
This rooftop bar offers panoramic views of the city from its location at Marylebone's Treehouse Hotel. Suitably, it's outfitted with sofas and plants, and a DJ spins from the "fort." Drink options include the gin- and absinthe-infused Shiso Swill.

PUBS

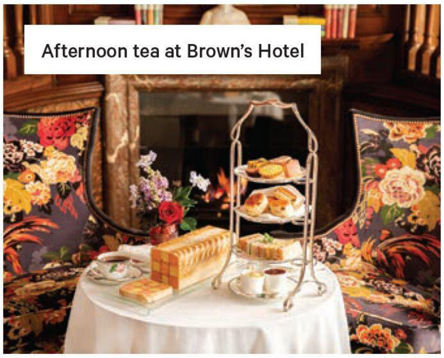
The country's contribution to drinking culture dates back centuries. There are good pubs in every neighborhood and great ones liberally sprinkled throughout the city, while the very best have a story to tell.

Red Lion
Conveniently close to 10 Downing Street and the Houses of Parliament, this Westminster pub has walls lined with politicians' portraits and a range of pies, from steak to cauliflower cheese, to be chased by beer.

Ten Bells
This Spitalfield pub dates to the 1660s and was once known as "Jack the Ripper" because one of his victims was killed outside.

PREVIOUS PAGE: GETTY IMAGES (3). THIS SPREAD, GORING: ADAM LYNKL. THE GLOBE: DAVID JENSESN. REMAINING: COURTESY COMPANIES

Among the draft beers at this fashionable spot are some locally brewed in Camden, and there's a short, sharp selection of cocktails.


Afternoon tea at Brown's Hotel

The George
Across the road from Borough Market is this rambling former coach house with multiple rooms and floors. Shakespeare supposedly drank here, and Charles Dickens name-checked it in *Little Dorrit*. There's a good brew selection to accompany options such as beer-battered halloumi.

The Lyric
Conveniently close to Regents Street shopping and West End shows, this charming Victorian pub has more than 30 cask and keg beers from independent brewers and a comfort-food menu with a daily changing pie and Korean fried chicken.

Churchill Arms
One of London's most recognizable pubs, this Notting Hill bolthole is decked with flowers and British flags. There are a few sparkling wines, including Winston Churchill's favorite, Pol Roger, but mostly there's beer. The Thai (yes, Thai) food menu features curries and stir-fries.

The Eagle Farringdon
This airy tavern in North London, which helped launch gastropubs in the UK, has a rotating chalkboard menu that might proffer the lauded marinated steak sandwich. There's also a well-curated wine selection and pints from nearby Hackney Brewery.

WHAT TO DO

CULTURAL ACTIVITIES

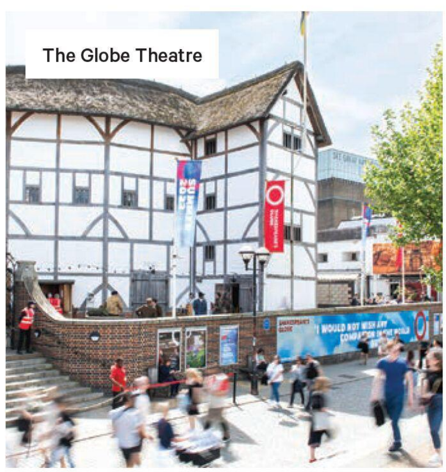
It wouldn't be a proper trip to England's capital city without visiting one of its great museums—many of which are free—or seeing a show on the West End. Here's the best of what's on in early May.

"Crown to Couture," Kensington Palace
Giving visitors a look at the glamorous world of the Georgian courts, this exhibit will explore how "power dressing" back then led to some of the modern era's most famous red-carpet looks. More than 200 objects will be on display, from a silver-tissue gown worn at the court of Charles II in the 1660s to Billie Eilish's Oscar de la Renta dress from the 2021 Met Gala.

"Wildlife Photographer of the Year," Natural History Museum
Walk past the dinosaurs to an exhibition that environmentalist Charles would approve of. It's full of photos of the natural world in all its glory, such as polar bears taking over an abandoned Russian village, but also on display is its sad reality, including an image of what ocean trash does to whales.

"Donatello: Sculpting the Renaissance," Victoria and Albert Museum
Called a "once-in-a-lifetime show," this is the first UK exhibition on Renaissance master Donatello and his *David*, on loan from the Museo Nazionale del Bargello in Florence.

***Guys and Dolls*, Bridge Theatre**
This rich, immersive revival of the 1950s classic directed by Nicholas Hytner is one of the hottest tickets in London and a riot of an evening out. Get a standing ticket near all the action if you can.


The Globe Theatre

***A Midsummer Night's Dream*, the Globe**
There's no better place to see a show in London (when the weather behaves) than outside at the iconic Globe Theatre, and starting this spring, artistic director Michelle Terry is playing the mischievous Puck in Shakespeare's comedy. Go for a stroll along the South Bank afterward.

AFTERNOON TEA

The UK's quintessential nosh features high-rising stands stacked with neat sandwiches, assorted pastries and scones to be spread, as thickly as possible, with clotted cream and jam. Royal flourishes, beyond the classic coronation chicken sandwich, appear at many of these retreats.

Fortnum & Mason
At the famed Regent Street store, which doubles as the royal family's unofficial local market, the Diamond Jubilee Tea Salon's service nods to the eco-minded new king, with wild mushroom eclairs, sustainable trout sandwiches and organic sparkling tea.

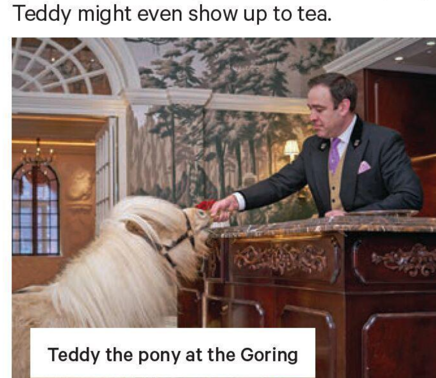
Sketch
The city's most stylish tea service starts at £75 per person. But it's an event: Among the petite gateaux selections are elegant passion fruit tarts and red fruit Victoria sponge cake.

The Lane
Theatre Royal Drury Lane has hosted every reigning king and queen since 1663 and is rolling out the festive bunting for its Coronation Regency tea. The Kit Kemp-designed plates will be topped with treats from pastry star Lily Vanilli: She'll serve goat cheese canelés and decorate desserts with royal flourishes such as little golden crowns.

Crystal Moon Lounge
The salon at the Corinthia Hotel, near Trafalgar Square, is offering a series of tea services. The caviar option includes blinis, egg and Parmesan cream soldiers and tartlets garnished with premium fish eggs. Served with Champagne, it starts at £140.

Drawing Room at Brown's Hotel
A favorite of Queen Victoria, this handsome dining room will be decked with flowers in honor of the king's enthusiasm for gardening. Floral-decorated cake stands will be outfitted with precisely cut sandwiches and sweets, and a dessert trolley will carry Charles's favorite cake, the fruit loaf.

The Goring
Kate Middleton spent the night before her wedding at this royal favorite hotel. It will have scones decorated with Charles's profile and crown-shaped pastries, and house pony Teddy might even show up to tea.


Teddy the pony at the Goring

Bourbon, You've Got Company

American single malt whiskey is becoming an official category—and it's about to boom

By Matthew Kronsberg
Photograph by Shawn Michael Jones

Late last year, Gareth Moore, chief executive officer of Virginia Distillery Co., was in Korea to raise awareness of his Courage & Conviction single malt whiskies. His main competition there wasn't so much American bourbon or rye but "global" single malts such as Kavalan from Taiwan and Amrut from India. The local take on his product surprised and amused him. "There was this crazy term that I heard," he recalls. "Cowboy hat with bagpipes."

But while a US distillery pushing a single malt may seem to be a mishmash of cultures, it's about to become a category defined by strict rules: Regulators are expected to ratify a binding definition of the American single malt any day now.

Lionized in Scotland, single malt whiskey at its most essential must be made at a *single* distillery that uses only *malted* barley in the mash. It doesn't have to be bottled from a lone cask or be from a single year; in fact, most are blended from different barrels to produce a consistent product. And yet, taste a campfire-in-a-glass Lagavulin 16-year-old against a floral, fruity Glenlivet 12, and you'll understand the broad range of styles that can be achieved within these rules. And that's just from Scotland, a country roughly the size of South Carolina.

Now consider all of the possibilities that can come from the diversity and geography of the US. That's what Matt Hofmann, the master distiller and now managing director of Seattle's Westland Whiskey, did in March 2016, when he gathered eight other American makers in a side room of a Chicago liquor store during a fierce blizzard. They debated and drafted a proposed set of guidelines for the category, subsequently forming the American Single Malt Whiskey Commission and petitioning the federal Alcohol and Tobacco Tax and Trade Bureau for a Standard of Identity—the same kind of regulatory protection enjoyed by bourbon, Tennessee whiskey and rye.

The business case is simple: The worldwide market for single malts, valued at $2.8 billion in 2022 by consulting firm Verified Market Research, is projected to grow to $4.1 billion by 2030. Jim Beam and Jack Daniel's are preparing to roll out new single malts as soon as this summer, a sure sign this American segment has no intentions of remaining niche.

Like their Scottish counterparts, American single malts will use only malted barley and be produced in a single distillery. But in the US, there's no minimum age requirement for the whiskey. That can be a tough sell, Moore admits: "The No. 1 issue that I think all of us are facing is that with single malts, the longtime indicator of quality is an age statement."

But American maturation environments are quite different from Scottish ones, he says. In Tucson, where Whiskey Del Bac's mesquite-tinged Dorado ($60) is distilled, it's bone dry with wild temperature swings of more than 30F in one day, which draws the liquid into and out of the cask's wood more frequently, imbuing flavor at an accelerated rate. "Our aging times inherently have to be shorter, but we really can produce a world-class spirit in a year," says Amanda Paul, who owns the distillery with her father, Stephen.

It joins a market flush with a broad bouquet of spirits made under the proposed rules. Consider Westland Whiskey's Outpost Range, which dives deep into Pacific Northwest terroir, exploring the effects of different strains of heirloom barley, local peat or, in the case of the recently released Garryana 7 ($150 for 700ml), aging partially in casks made from a species of oak endemic to the region. Westward Whiskey in nearby Portland reflects the region's craft beer culture by using brewer's rather than distiller's yeast for its whiskies, including its 125-proof Cask Strength expression ($100). Both are a far cry from Del Bac's desert dram.

It's working with—rather than against—these environments that's creating innovation and a truly American product. What does aging for 5 to 10 years a mile above sea level bring out in a whiskey? Fans in Denver waited in line overnight (in December, no less) to find out, paying $120 for a bottle of Stranahan's annual Snowflake single malt. Virginia Distillery takes at least four years in sherry, bourbon and STR (shaved, toasted and recharred) wine casks, a treatment sometimes used by Glenmorangie and Kavalan, to imbue its flagship Courage & Conviction Signature Malt ($75) with delicate notes of raspberry and vanilla.

Demand and competition are only going up from here, says Adam Rogers, research director at IWSR Drinks Market Analysis Ltd. While he projects American whiskey to show a 5% compound annual growth rate from 2021 to 2026, he expects US single malts to more than double that pace, at 12%.

Perhaps more telling, the American Single Malt Whiskey Commission now counts 104 member-producers, and big players have steadily moved into the market, gobbling up independents. In 2022, Diageo Plc bought Balcones Distilling LLC of Texas after taking a minority interest in Westward in 2018 through its Distil Ventures accelerator. Stranahan's is now owned by Proximo Spirits Inc., making it a sister brand to Bushmills. Westland is part of Rémy Cointreau.

Despite all the momentum, Westward CEO Tom Mooney takes a long view. Broad uptake is "not going to happen in a moment of time because of a federal ruling. It's going to be generations." Fortunately, whiskey makers are patient people.


WESTLAND
OUTPOST RANGE
WESTWARD
AMERICAN
TRD
MRK
SINGLE MALT
WHISKEY
WHISKEY
DEL BAC
ROCKY MOUNTAIN
Stranahan's
SNOWFLAKE
HUMBOLDT PEAK
COLORADO
SINGLE MALT WHISKEY
DISTILLERY EXCLUSIVE
VIRGINIA DISTILLERY CO
AMERICAN
SINGLE MALT
WHISKY



Mumuye statues that were showcased at Tefaf

Africa's Artistic Diaspora

How dealers and collectors navigate complex colonial histories

By James Tarmy

On the opening VIP day of the European Fine Art Fair (Tefaf), an annual gathering in Maastricht, the Netherlands, there's no such thing as a "packed" booth. The crowd is too genteel, the list too restricted. But at the back of the convention hall, six booths representing what the fair's map has dubbed "Tribal Art" are humming with visitors.

The Paris-based dealer Bernard Dulon has brought an intricately carved Bena Lulua figure with a dull red patina that originated in central Africa in the 18th century. (Asking price: €400,000, or about $432,000.) Nearby, the Brussels dealer Bernard de Grunne has displayed a group of Mumuye statues from northeastern Nigeria. Tall, slender and lively, the figures carry prices ranging from €50,000 to €300,000. By the end of the fair's second VIP day, all nine on offer have sold.

The buzz at the booths feels a world apart from the ongoing fracas over the restitution of the so-called Benin Bronzes, a collection of thousands of artifacts taken from Benin City (in what's now Nigeria) during a British military raid in 1897. For a century the objects were bought and sold publicly and showcased in the world's top museums. And for decades, people have called for their restitution, arguing that they were stolen. In the past few years, institutions around the world have finally begun to listen and reexamine African art collections more broadly. The German government signed an agreement in 2022 to transfer ownership of more than 1,000 artifacts to Nigerian officials; the Smithsonian's National Museum of African Art transferred ownership of 29 objects last year; and France, which possessed pieces taken in an earlier raid from the West African kingdom of Dahomey, returned 26 objects to Benin in 2021.



Another Mumuye statue, from northeastern Nigeria

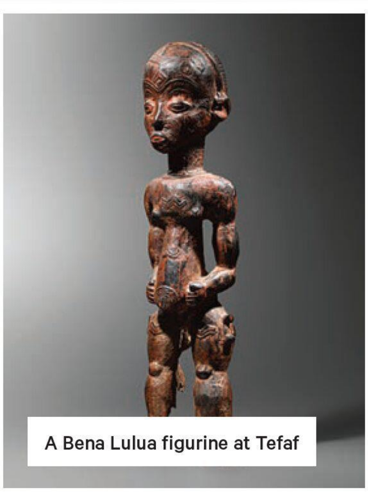
But for the time being, the market for classic African art appears relatively immune to broader restitution claims from formerly colonized peoples and their advocates. In a 2022 State of the African Art Market report by the industry site Imo Dara, some 75% of collectors surveyed responded that "now is a really exciting time to collect [classic African] art." Recent auctions have been successes; a March online sale at Christie's filled with wooden masks and statues carried a low estimate of €500,000 and ended up totaling, with premiums, just under €840,000.

Private dealers have also been selling works at a steady clip. "I was lucky to sell all my Mumuye to different clients," says De Grunne. "I talked to all my colleagues, and the market is there. If you bring interesting things, sales will take place."

Dealers say the only dark cloud is the perception—untrue, they insist—that most African art outside the continent was taken immorally, if not illegally. "The media speaks about it like it's all stolen objects," says Serge Schoffel, whose Brussels gallery exhibited at Tefaf. "It doesn't help bring in new collectors." Existing connoisseurs, he says, will stick with the field. "When you have a passion of your life, you're not going to stop," Schoffel says. "But when you want to start a new collection and you hear bad stories?

BENA LULUA: COURTESY TEFAF MAASTRICHT; MUMUYE: FREDERIC DEHAEN BRUSSELS (2)





A Bena Lulua figurine at Tefaf

This isn't your first move."

Imo Dara's report defines classic African art as "works created to serve a purpose (so-called traditional art) and/or artworks created by artists of African descent during and before the early 20th century" in sub-Saharan Africa. Egypt and the rest of north Africa is in a separate category. Even so, the term covers a vast array of objects. "We're talking about a whole continent and very complicated histories," says Chika Okeke-Agulu, the director of Princeton University's program in African studies. "The way the Portuguese colonized parts of Africa is different from the British or the French, so it's hard to make broad overarching statements about the state of African art in the market."

The category covers everything from the quotidian, such as spoons made for eating, "to highly ritualized objects that were vessels of numinous powers," Okeke-Agulu says. "When you go to a fair for African art, you're seeing the same kind of diversity." Many of the objects, he says, "were made for the market and sold on the African continent to dealers, so when they come onto the market, that's where they belong."

Other artifacts are of a different order. "We're talking about objects that have significant cultural value and were taken through acts of expropriation and through stealing and bribery," Okeke-Agulu says. Many of these are perceived by advocates to be taboo even if they aren't illegal to own.

One example Okeke-Agulu cites is the Maqdala treasures, a collection of precious objects taken by the British in 1868 from a fortress in what's now Ethiopia. After lobbying by Ethiopian officials, some objects have been voluntarily returned, though others, including works in the collection of the British Museum, remain where they are. "Objects like that, if they come up in the market, you know they're already not supposed to be with whoever is keeping them," Okeke-Agulu says.

As a result, most of the field is eager to delineate between objects taken during a documented conflict and ones sold by their original owners, either for the export market or because they were simply happy to part with them for the right price. This will not only eliminate ethical questions, dealers say, but also strengthen the market and allows collectors to participate without worrying they're perpetuating historical wrongs.

Some institutions are taking the same inventory of their collections. "The Congo museum in Brussels looked at their database of hundreds of thousands of objects and examined their provenance," says De Grunne, the dealer, referring to Belgium's AfricaMuseum. "There were maybe 900 works where they had to dig a bit deeper to see if there was any connection to a military campaign, and half or two-thirds turned out to have no relation to a specific event or drama or war."

Okeke-Agulu suggests would-be ethical African art collectors simply need to do some research. "Whoever is in that market to buy should first make sure that there is no documented evidence that these are items that have been declared off-limits," he says. If collectors choose to go by a seller's word alone, he says, it's buyer beware: "Significant objects of African cultural heritage? When they show up in the market, they will always be challenged if the stakeholders hear about them."

Dealers say they want clarity, too, if only so people stop worrying that the field is illicit. "When you're buying African art, it means that you love Africa," says the Paris dealer Dulon. "You love its people, you love everything about it." Ⓑ

No Fairy Tale

Andrew Lloyd Webber's *Bad Cinderella* forgets the moral of the original. *By Chris Rovzar*

The creators behind the new musical *Bad Cinderella* were at least clever about one thing: They claimed the word "bad" as their own before it could be used against them. Handily, there are many other useful terms to describe the production: "prurient," "ill-conceived," "nonsensical," "overlong" and "icky."

Let's start with the icky, since the show certainly does. Transferred from London's West End to Broadway, *Bad Cinderella*—directed by Laurence Connor, with a score by Andrew Lloyd Webber, a book by Emerald Fennell (*A Promising Young Woman*) and lyrics by David Zippel (*Hercules*)—opens with a number called…*Buns 'N' Roses*. In it, we meet the town of Belleville, tyrannized by a vain queen who demands physical perfection of her subjects. Seconds after the overture, busty women in corsets sing lasciviously about their "fresh milk, creamy and frothy, straight from my dairy, squeezed by my hand." Next, a shirtless baker bellows, "Hot buns, check out my hot buns." Groan.



All that beauty attracts tourism, the ensemble tells us: "Every single citizen's a cut and chiseled god. / Everyone among us has a ripped and rockin' bod." And the rhymes go thudding downhill from there.

Erstwhile heir Prince Charming has gone missing and is presumed dead. The randy Queen, played with frenetic perfection by Grace McLean, has erected a statue in his honor. But it's been (gasp!) defaced—by Cinderella, who's graffitied the words "Beauty sucks." (Sigh.)

This is the poor girl's sole wicked act in the show, and yet she's referred to throughout as "Bad Cinderella," a two-name villain like Darth Vader or Boss Baby. Her true crime is that she doesn't care how she looks. While everyone else in town is dressed like they're auditioning for the role of the Sugar Plum Fairy at a Hypercolor burlesque, in costume designer Gabriela Tylesova's hands, Cinderella (Linedy Genao) wears earth tones and pants.

Her lot is roughly the same as in the fairy tale: Her dad's dead, and her stepmother and stepsisters have forced her into servitude. Here she's at least got one pal, fellow outcast Sebastian, the Queen's younger son. Played with shrimpy pluck by Jordan Dobson, he's in a pickle, too. His impatient mom is throwing a ball wherein he must choose a bride by midnight.

Bawdy hijinks ensue over the show's 2-hour, 30-minute runtime, many of them utterly needless to the central story of Cinderella and Sebastian getting together. You could easily cut the Queen's sordid backstory with the stepmother, but then you'd lose the delightful duet *I Know You*, between McLean and the show's other star, Broadway vet Carolee Carmello. Men are frequently shirtless while they belt out numbers such as *Hunks' Song* and *Man's Man*. It's made clear the Queen wishes she could've boned her older son, Prince Charming. ("He was so darn ripped," she sings. "Let's say the boy was well-equipped.") The gifted cast has fun with all this, but when it gets to a big gay twist at the eleventh hour—a gayus ex machina?—everyone will see it coming and still wince.

Fennell, Lloyd Webber and Zippel set out to brashly reinvent a familiar tale, but the result is a meandering head-scratcher that's vulgar without being edgy or even interesting. In what could've been a compelling thread, the "godmother" here is a plastic surgeon whom Cinderella feels pressured into visiting for a face-lift before the ball. The ramifications of a confident, independent heroine begging for bodywork are left unexamined.

At least Lloyd Webber's music is often catchy and sure-footed, even as it repeats itself in his usual style, and the 17-piece orchestra adds lushness. The title song features an earworm affectionately lifted from *In My Own Little Corner* in Rodgers and Hammerstein's own splendid *Cinderella*. It's lodged in my brain like a hatchet. But Zippel's rhymes are often deadly—"You are so lame, at least I know who to blame"—and Fennell's attempts to incorporate contemporary lingo feel frantic. (Cinderella is not a "pick me girl.") The second act is so drawn out, you wish Sebastian would give up on this whining brat.

And that's the root of the show's problems. The fable of Cinderella is about a wonderful girl who, for a moment, is made beautiful so her outer appearance befits the person she is inside. Once she's returned to her rags, her prince finds her and stays true. It's no wonder children have long loved the story. But in this version, Cinderella isn't charming, or generous, or kind, or even amusing. Genao sings the part winningly, but under Connor's wobbly guidance, Bad Cinderella isn't great company.

During the performance, I sat behind a girl who couldn't have been more than 8, clearly thrilled to be at a Broadway show and seeing a tale as familiar to her as the inside of her slippers. (The show's website recommends a minimum age of 10.) I wish I could've covered her eyes or ears to shield her from the raunch. I wanted to take this child aside and tell her *Bad Cinderella*'s true moral: When something is already marvelous, you don't need to make it splashy or audacious—or sleazy—to try to fix it. Ⓑ

ILLUSTRATION BY MARÍA JESÚS CONTRERAS

A Tight Spotter

Lightweight and portable, the best binoculars are ones you always have on hand. *By Matthew Kronsberg Photograph by Shawn Michael Jones*



This time of year, the biggest stars in the sky have feathers. With the change of season, birds are on the move, and events such as Global Big Day (May 13) invite enthusiasts to spot and record them. To fully appreciate the brilliant orange plumage and white wing bars of a Baltimore oriole, a great pair of binoculars is essential. With a strong but lightweight magnesium housing, the $1,500 Zeiss SFL 8x30 binoculars add little more bulk or weight to your everyday carry than a paperback book. They're just shy of 5 inches per side and weigh about a pound, making them suitable for a walk or a baseball game—another chance to sight an Oriole in action. And with 90% light transmission, they even work well at twilight, when all of the most interesting creatures come out.

THE COMPETITION

• Swarovski Optik's $1,554 CL Companion 8x30 B binoculars provide a field of view of 396 feet at 1,000 yards, and they can focus in on objects as close as 9.8 feet. Weighing 17.3 ounces, they're available in green and anthracite.

• With its 32-millimeter objective lenses (compared with Zeiss's 30), the $949 Leica Trinovid 8x32 HD binoculars pull in more light, giving them a slight edge in dim conditions. Although at 22.2 oz, "more light" doesn't apply to the binoculars themselves.

• For those as focused on looking good as they are on looking, Nocs Provisions' $95 8x25 Standard Issue waterproof binoculars are encased in an easy-to-grip textured body and available in 13 colors.

THE CASE

NASA has turned to Zeiss optics time and again to capture views of the cosmos. For more terrestrial pursuits, the German company's ability to produce sharp, bright images in a featherweight package makes it a favorite of birders. The SFL 8x30 binoculars (the numbers indicate the magnification level and millimeter diameter of the objective lens, respectively) are made to be easily operated with one hand; it takes just 1.4 rotations of the focus knob to go from a broad field of view—426 feet at 1,000 yards—to scenes as close as 5 feet. The internal seven-lens array and Schmidt-Pechan prism keep colors sharp and true, which is especially great for novices who can't yet tell a grackle from a grouse. *$1,500, zeiss.com*

Hong Kong's Dollar Peg Is Stronger Than It Looks

By Shuli Ren



Hong Kong has pegged its currency to the US dollar since the early 1980s. With the path of the Federal Reserve's interest-rate policy so uncertain, is this monetary regime still worthwhile? By allowing its currency to trade in a very narrow range of 7.75 to 7.85 to the US dollar, Hong Kong's monetary policymakers are essentially giving up their power to dictate the financial center's benchmark rate.

Some investors are speculating that Hong Kong will soon abandon the dollar peg. Activist Bill Ackman disclosed a short position on the Hong Kong dollar late last year, as did Saba Capital Management's Boaz Weinstein, who likened the bet to a long-shot "lottery ticket" that could pay off big.

The bet against Hong Kong's dollar peg has a lengthy history and little success. This time the argument seems more compelling. After three years of China's stringent Covid Zero policy and border closings, the city has finally reopened, and it's hoping for an economic rebound. Rising interest rates that come as a result of US Fed hikes could, in theory, sap that nascent animal spirit.

Fear not. Hong Kong manages to have a much lower cost of borrowing despite–and, to some extent, because of–the peg. Even though the Hong Kong Monetary Authority raises its base rate in lockstep with the Fed, the lending rate that really matters to the local economy is dictated by big banks such as HSBC Holdings Plc and Standard Chartered Plc. Over the past year, HSBC has raised its prime rate by only 62.5 basis points, to 5.625%. By comparison, the Fed has hiked its benchmark rate by almost 5 percentage points. New homeowners pay only 3.625% for their mortgages, versus about 6.8% in the US. Small-business credit lines can be priced as low as 3.375%.

The low rates are a result of Hong Kong having too much money going around. In recent months, the city has seen inflows from foreign investors looking to profit from China's reopening. More important, Hong Kong has been a global wealth management hub for decades, thanks to its lack of a capital-gains tax and the dollar peg, which removes exchange rate risk for foreign depositors. Some global money ends up in bank accounts, and banks, eager to lend it out, keep rates low to lure borrowers.

There's the geopolitical argument that as China tightens its grip over Hong Kong, it won't want the city to have a different currency from the mainland. But it's not clear how removing Hong Kong's peg would help Beijing. Shanghai is already the mainland's financial hub; the central government doesn't need a second one.

As far as the Hong Kong society sees it, the dollar peg continues to work well. It takes currency risk off the table and draws in global funds, and the local community isn't penalized by rapid US rate hikes. Foreigners who bet against this monetary regime, based on economic or political theories, are overlooking the reality on the ground. Ⓑ

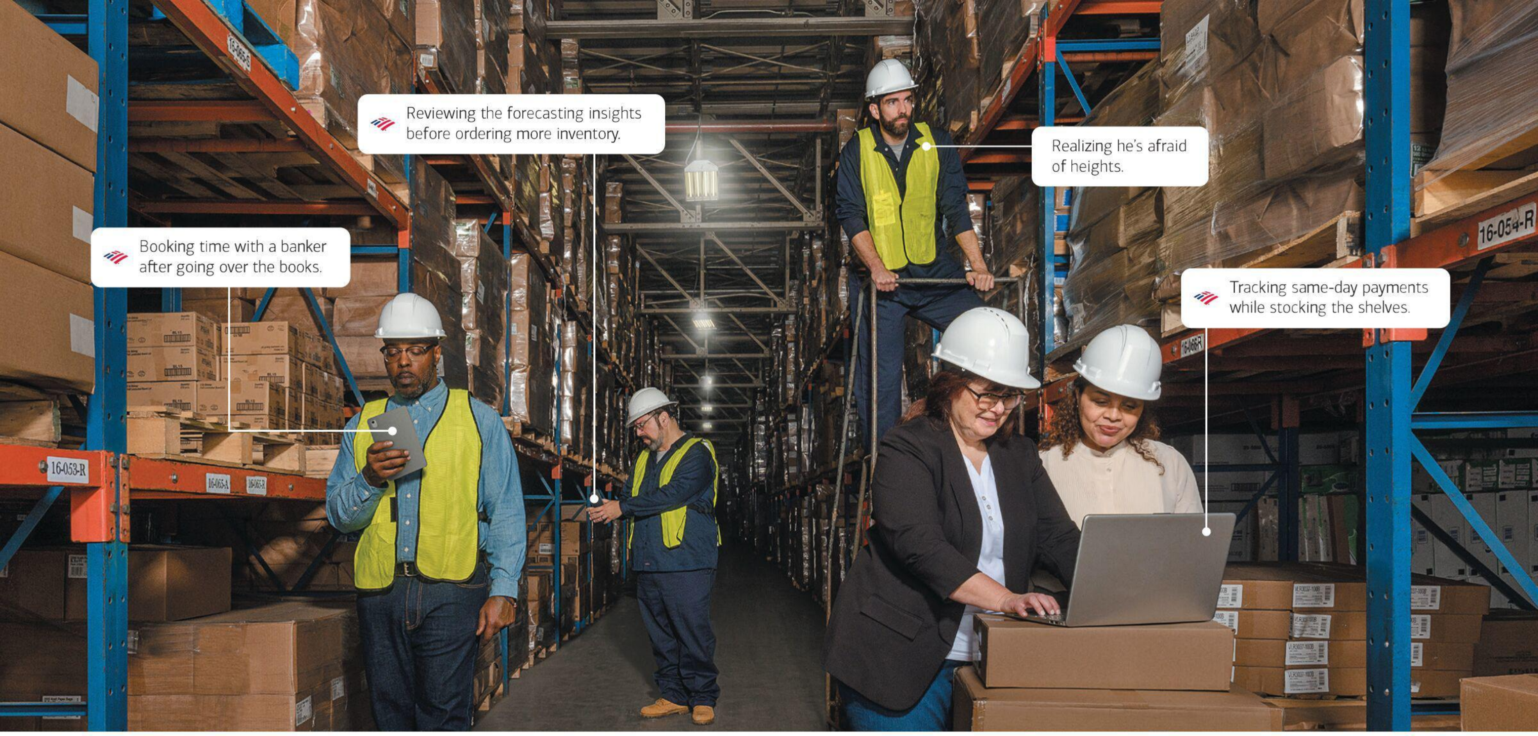
—*Ren is a columnist for Bloomberg Opinion*

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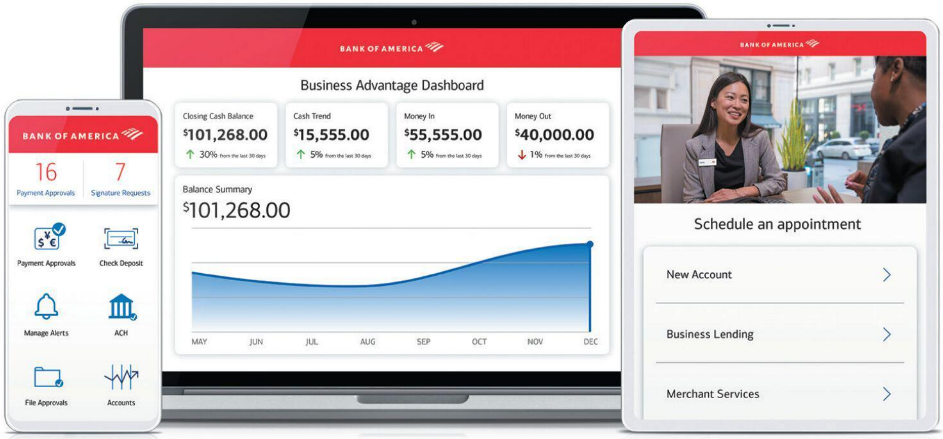
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